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The Farm Bill and U.S. Dairy

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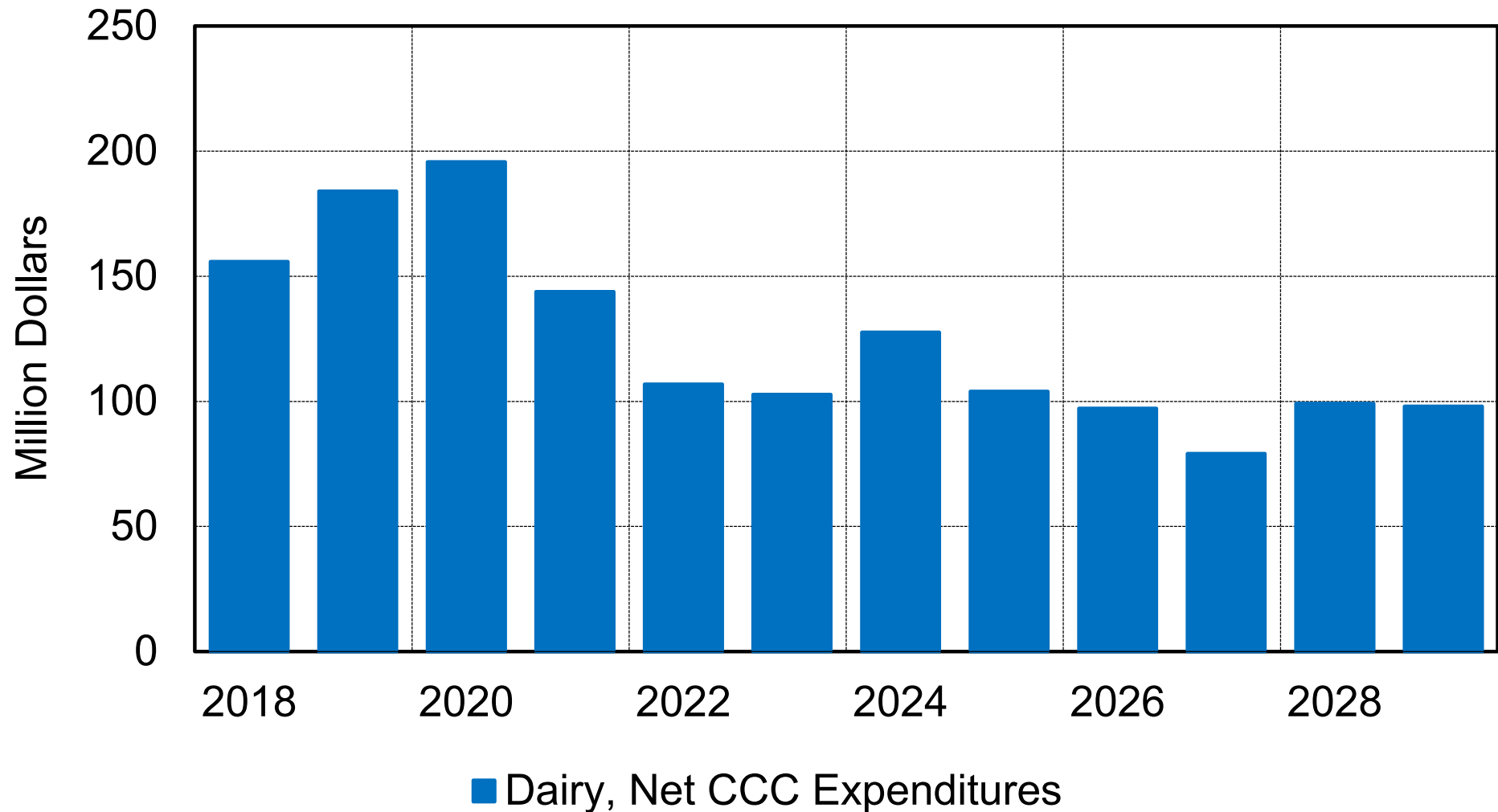
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Many different policy tools have been used in the U.S. dairy industry

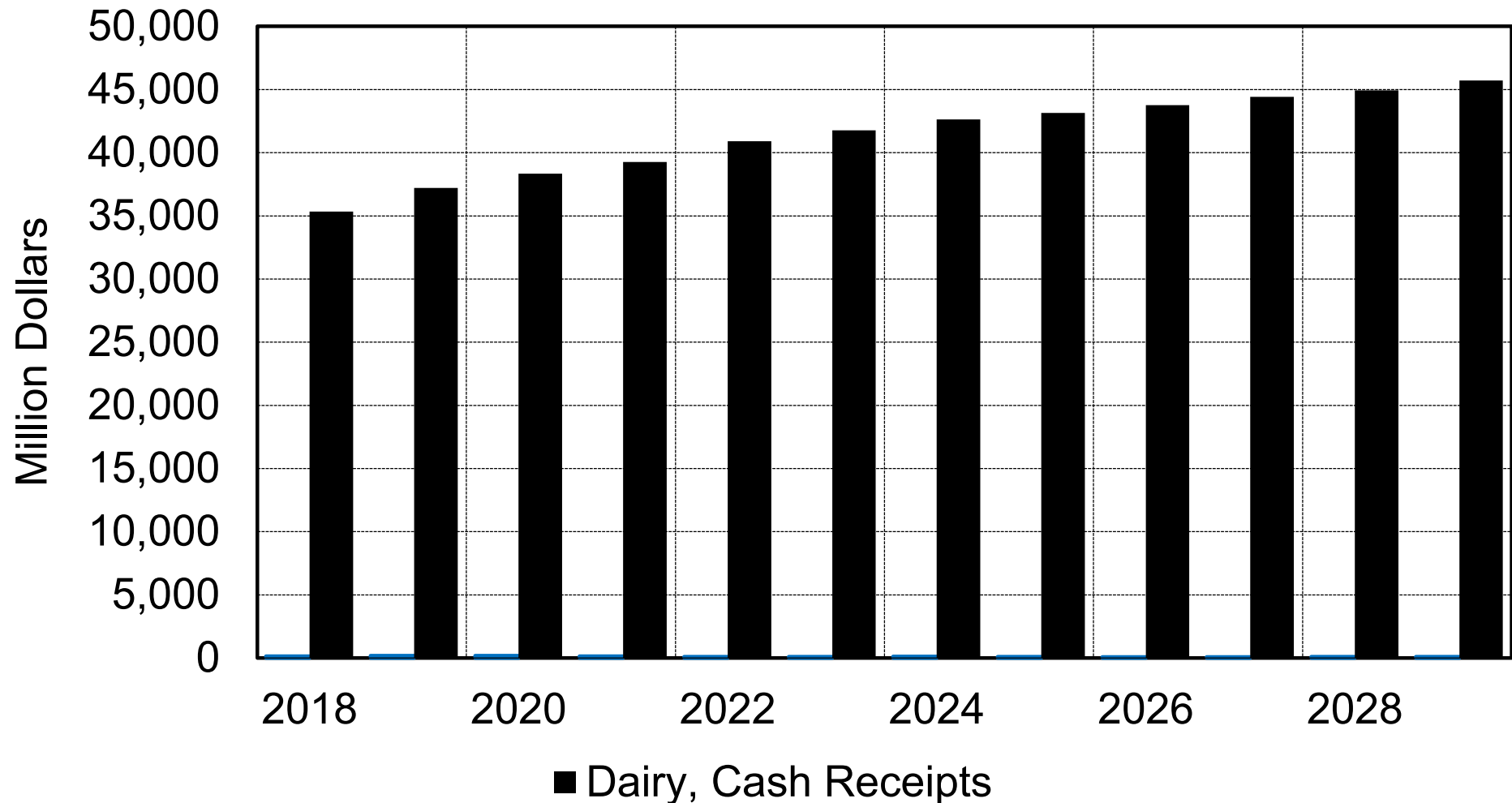
- **Price supports** – have been used to create market price floors
- **Direct payments** - partially moderate the effect of low milk prices on producers
- **Assessments** – economic incentive to curb production growth
- **Supply reduction** – direct approach to curb production growth
- **Orders** – allow milk uses to be valued differently, orderly marketing



Adequate dairy safety net with limited outlays



Adequate dairy safety net with limited outlays

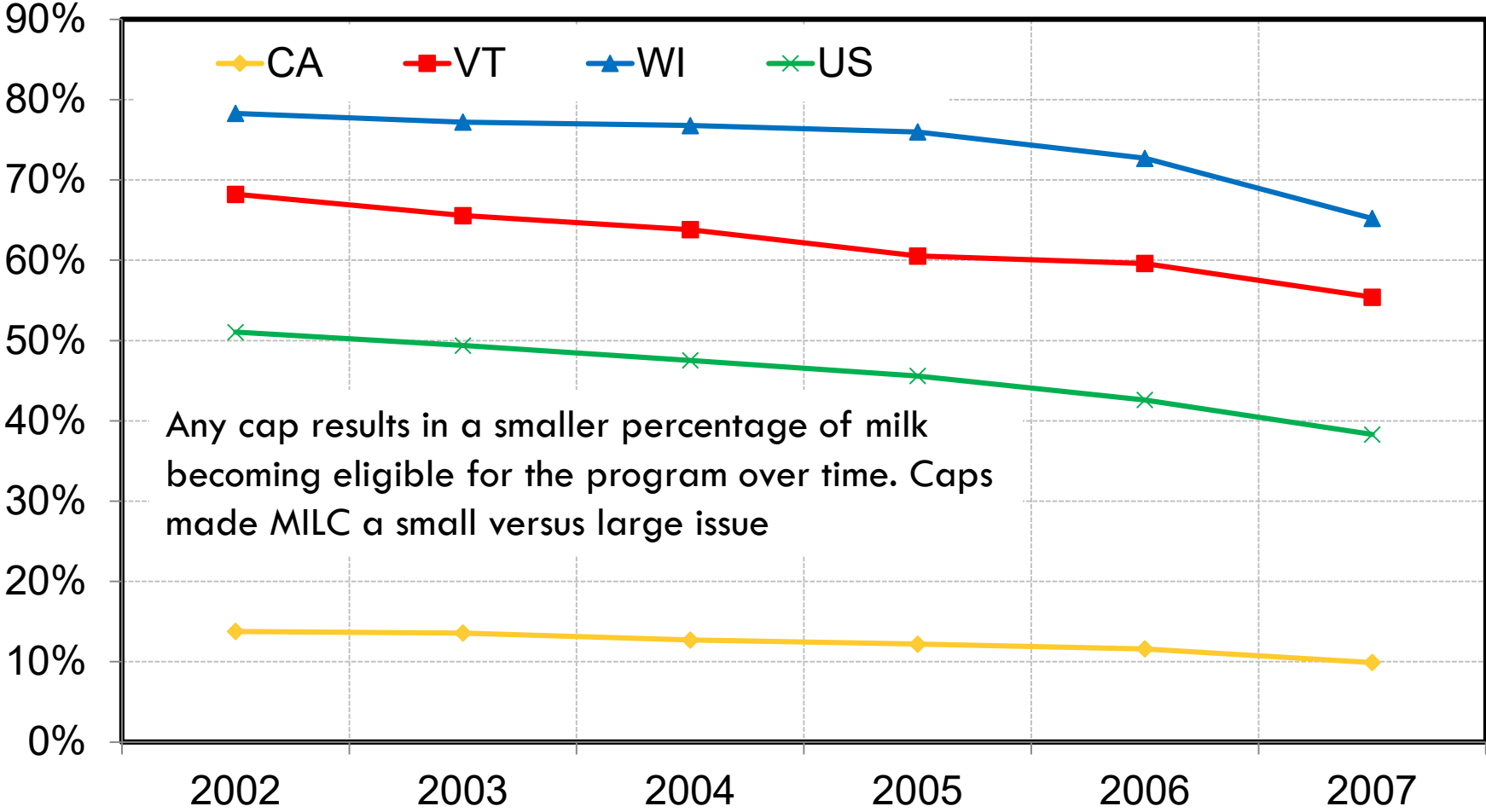


Milk Income Loss Contract (MILC) program

- Started with the 2002 farm bill
- Production eligible for the program capped
 - ▣ 2002 farm bill – 2.4 million pounds
 - ▣ 2008 farm bill – 2.985 million pounds, reverting back to 2.4 10/1/2012
- Payment Rate = $0.45 * (\text{Feed cost adjuster} * \$16.94 - \text{Boston Class I price})$
- Feed cost adjuster = $1 + \max(0, (0.45 * (\text{DRV} - 7.35) / 7.35))$
- Extends period of low prices



MILC eligibility, 2.4 million pound cap

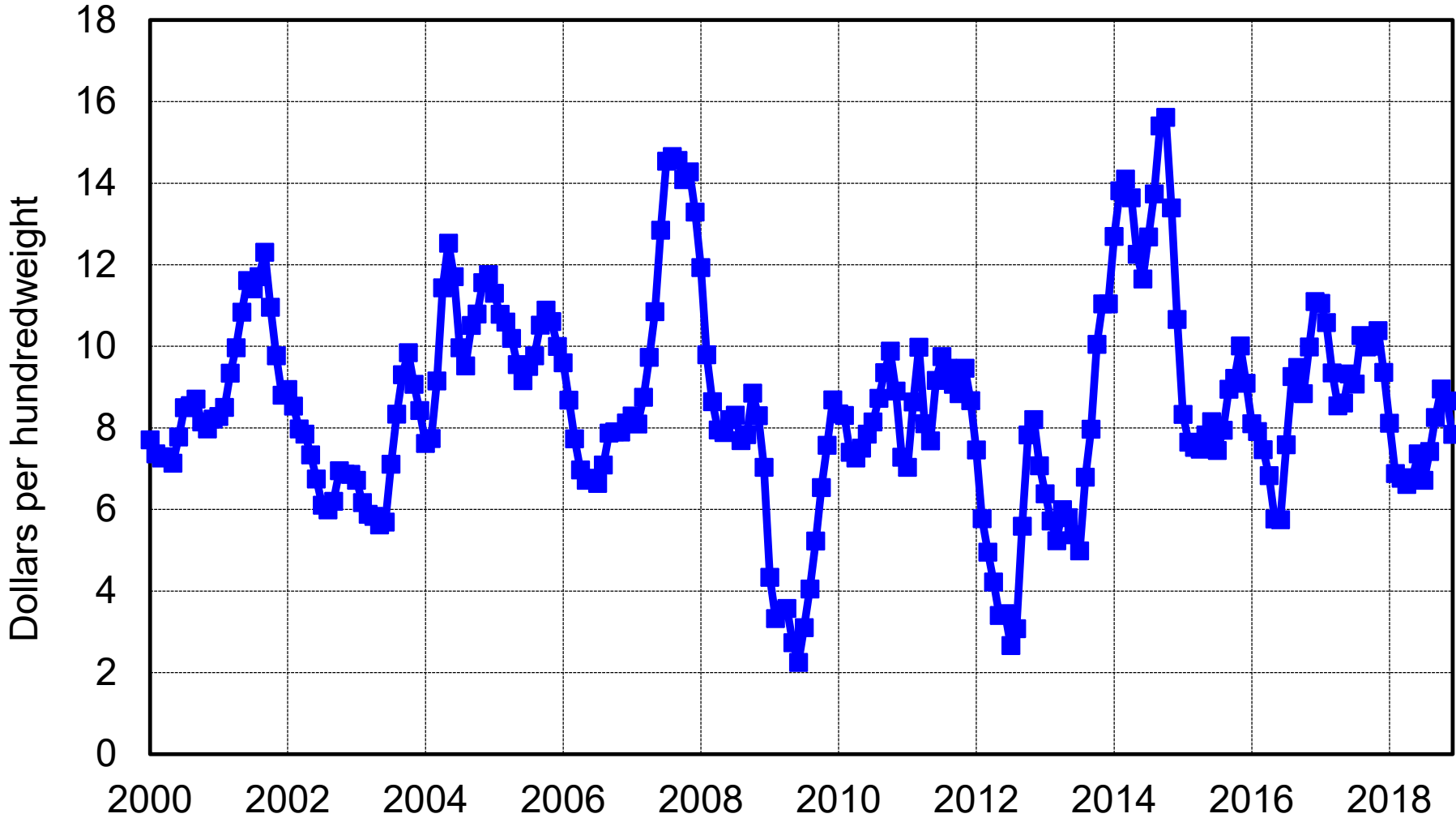


Margin Protection Program (MPP)

- Originated from NMPF's "Foundation for the Future" program
- All Milk Price less Feed Cost
 - Feed cost: $[1.0728 \times \text{price of corn/bu.}] + [0.00735 \times \text{price of soybean meal/ton}] + [0.0137 \times \text{price of alfalfa hay/ton}]$.
 - Milk, corn and alfalfa prices reported in Agricultural Prices; soybean meal price is Central Illinois, USDA/AMS
- Bi-monthly payments
- Choice of coverage quantities and margin levels



A new margin approach: producer premiums and flexible coverage

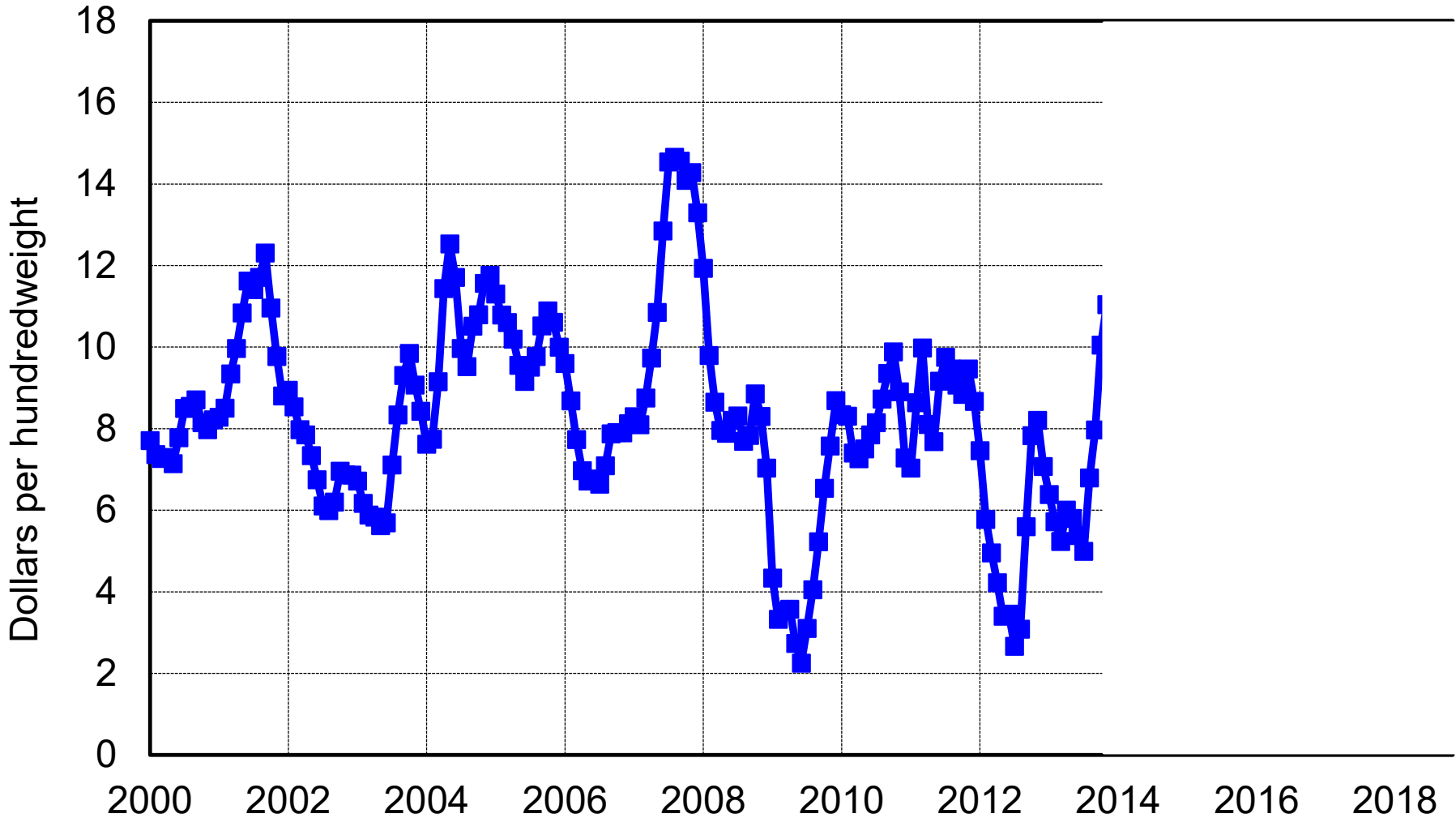


MPP premiums under the 2014 farm bill

Coverage Level	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
\$4.50	\$0.010	\$0.020
\$5.00	\$0.025 0.015	\$0.040 0.020
\$5.50	\$0.040 0.015	\$0.100 0.060
\$6.00	\$0.055 0.015	\$0.155 0.055
\$6.50	\$0.090 0.035	\$0.290 0.135
\$7.00	\$0.217 0.127	\$0.830 0.540
\$7.50	\$0.300 0.063	\$1.060 0.230
\$8.00	\$0.475 0.175	\$1.360 0.300



MPP margin: low margins during the 2014 farm bill debate

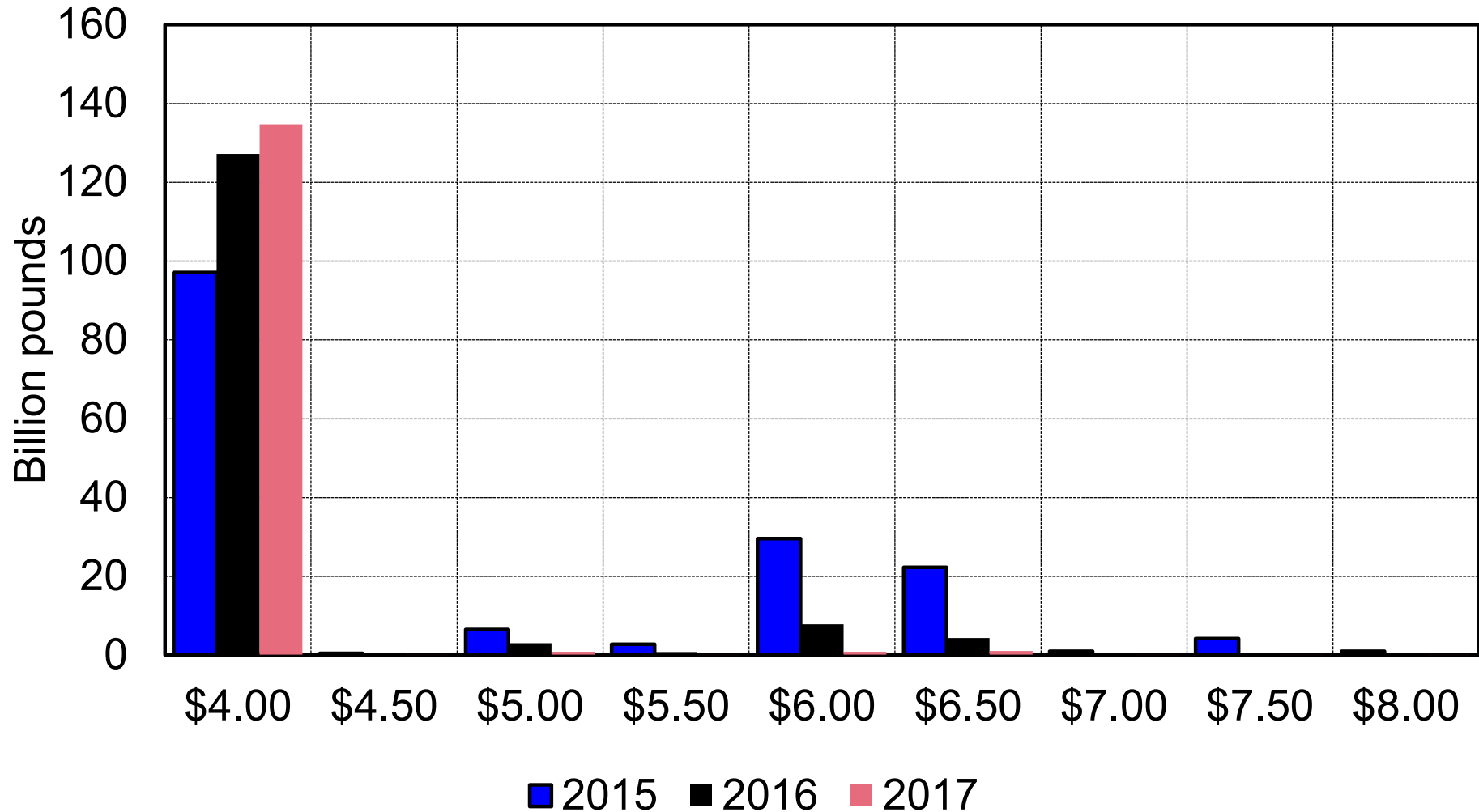


Program comparison

	MPP	MILC
Coverage Level	Pick \$4 to \$8 in \$0.50 increments	Feed Adjusted \$16.94 minus Boston Class I
Coverage Quantity	Pick 25% to 90% in 5% increments	34% or 45% applied to price difference above
Payments	Production history adjusted by US milk production growth	Capped – 2.985 million pounds or 2.4 million pounds
Premiums	Depends on coverage level	None



U.S. MPP production history



2018 MPP premiums

Coverage Level (Margin) per cwt.	Tier 1 Premium for 2018	Tier 2 Premium for 2018
	Covered production history less than five million lbs.	Covered production history greater than five million lbs.
\$4.00	None	None
\$4.50	None	\$0.020
\$5.00	None	\$0.040
\$5.50	\$0.009	\$0.100
\$6.00	\$0.016	\$0.155
\$6.50	\$0.040	\$0.290
\$7.00	\$0.063	\$0.830
\$7.50	\$0.087	\$1.060
\$8.00	\$0.142	\$1.360



2018 farm bill, Dairy Margin Coverage (DMC)

- New margin coverage levels up to \$9.50 on the first 5 million pounds
- Production history coverage is 5% to 95%
- Lower premiums
- Reimbursement program for past premiums paid less indemnity payments
- **These changes provide a much stronger safety net on the first 5 million pounds of production history**
- Milk Donation Program
- Removal of the “higher of” for class I mover to “average + \$0.74”



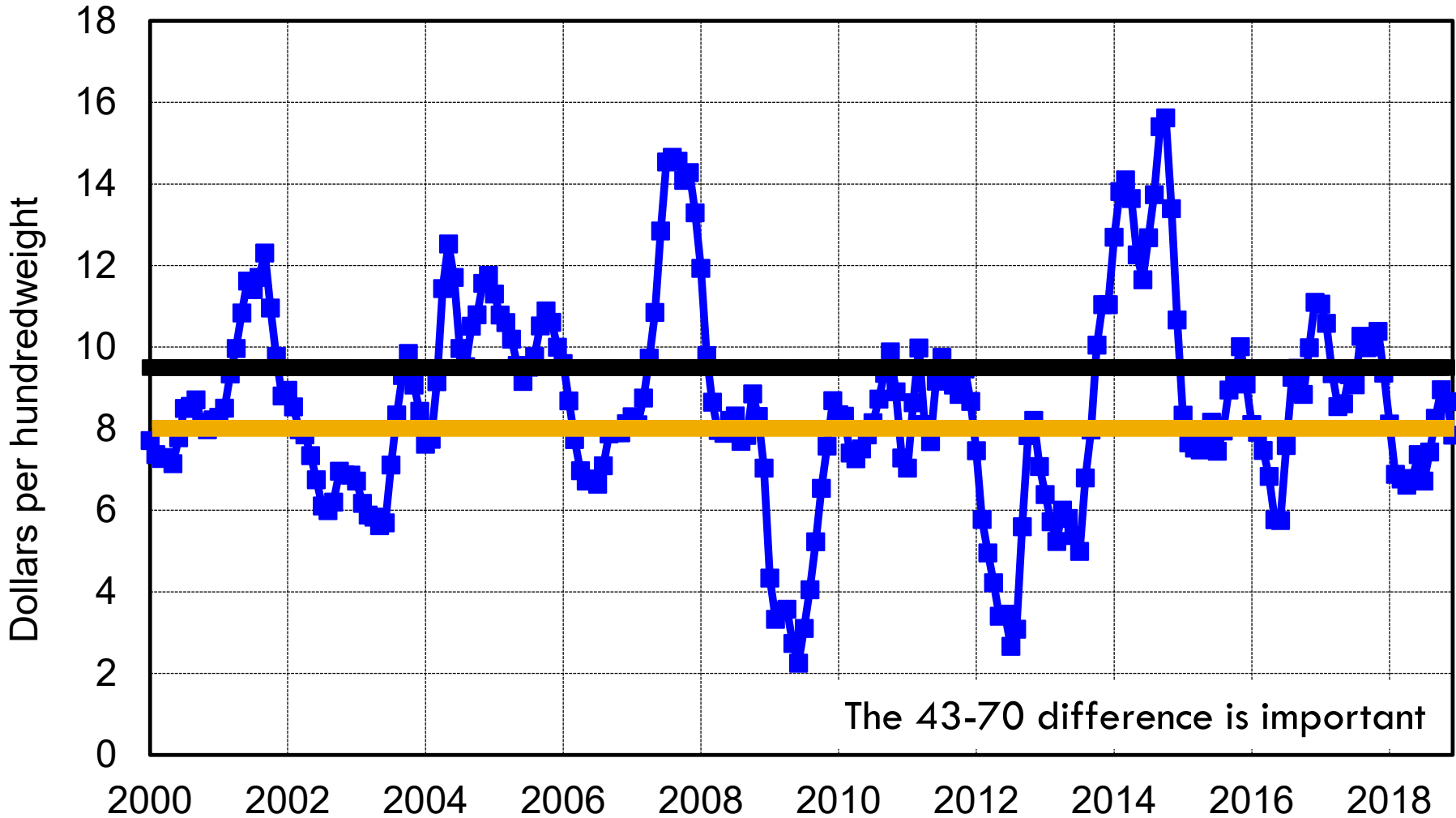
2018 farm bill, lower DMC premiums

DMC Premium Levels at Alternative Coverage Levels

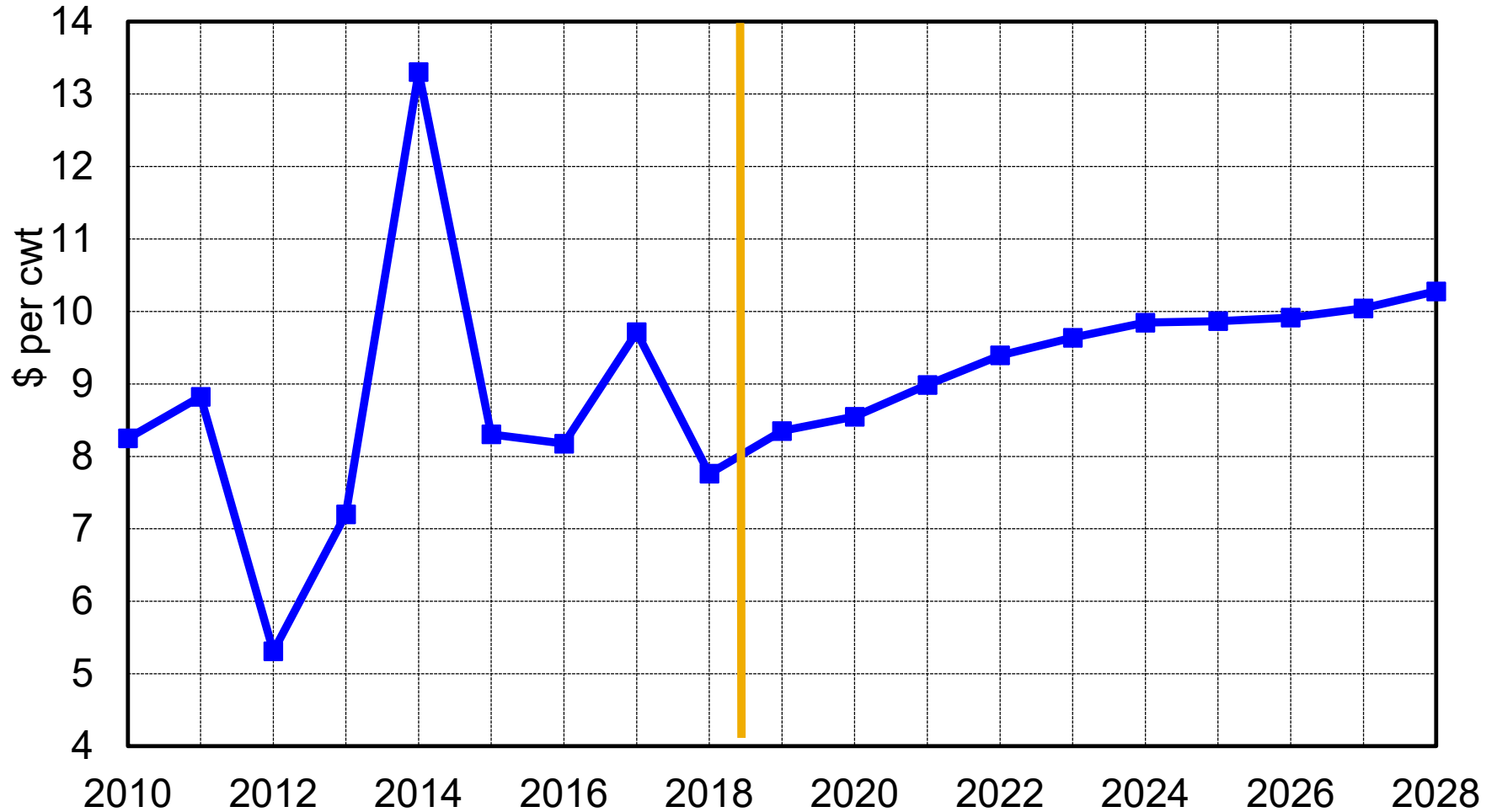
Coverage	Premiums for:	
	< 5 Mill. Lbs.	> 5 Mill. Lbs.
\$4.00	\$0.0000	\$0.0000
\$4.50	\$0.0025	\$0.0025
\$5.00	\$0.0050	\$0.0050
\$5.50	\$0.0300	\$0.1000
\$6.00	\$0.0500	\$0.3100
\$6.50	\$0.0700	\$0.6500
\$7.00	\$0.0800	\$1.1070
\$7.50	\$0.0900	\$1.4130
\$8.00	\$0.1000	\$1.8130
\$8.50	\$0.1050	n/a
\$9.00	\$0.1100	n/a
\$9.50	\$0.1500	n/a



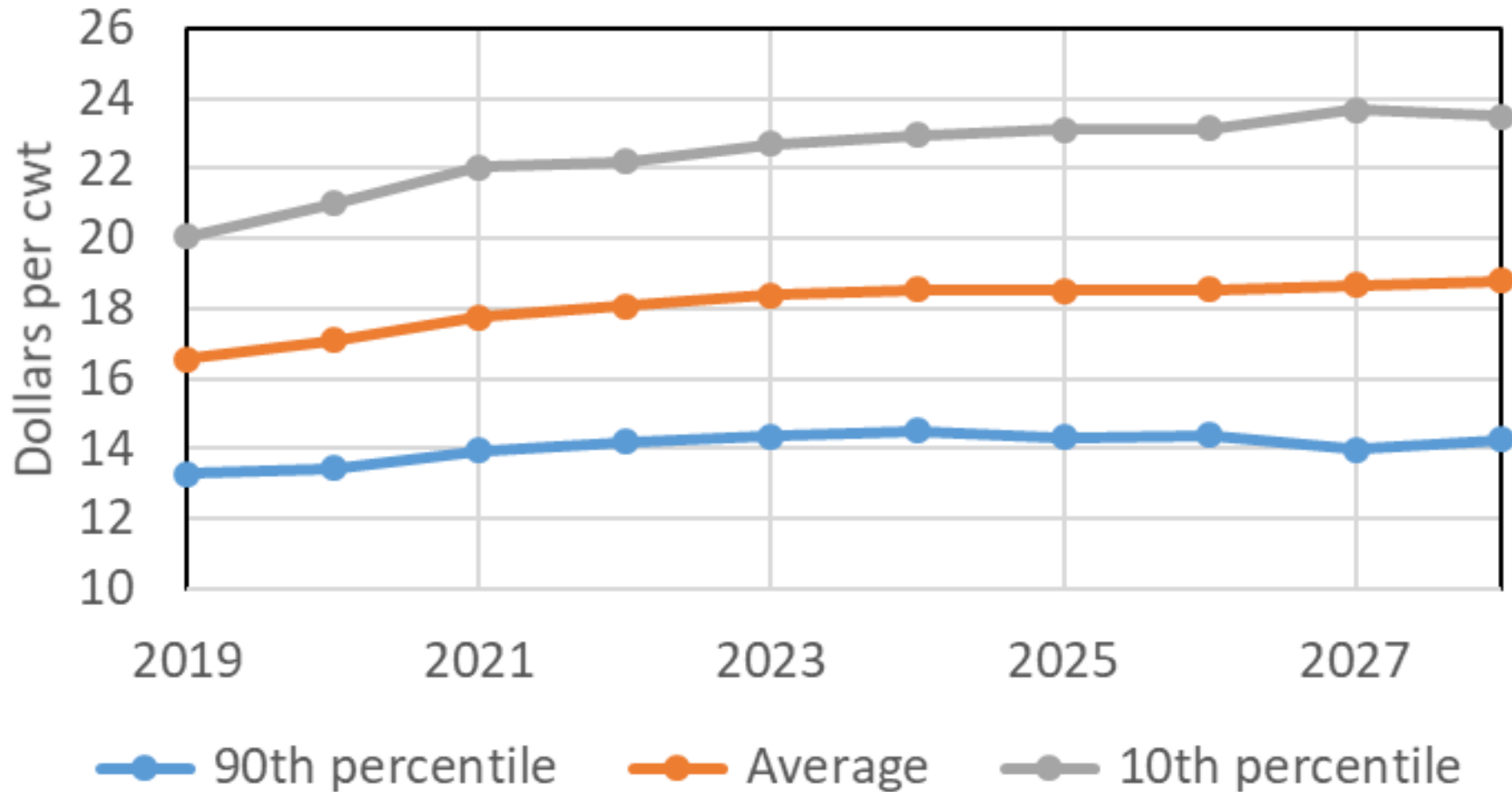
DMC Margin



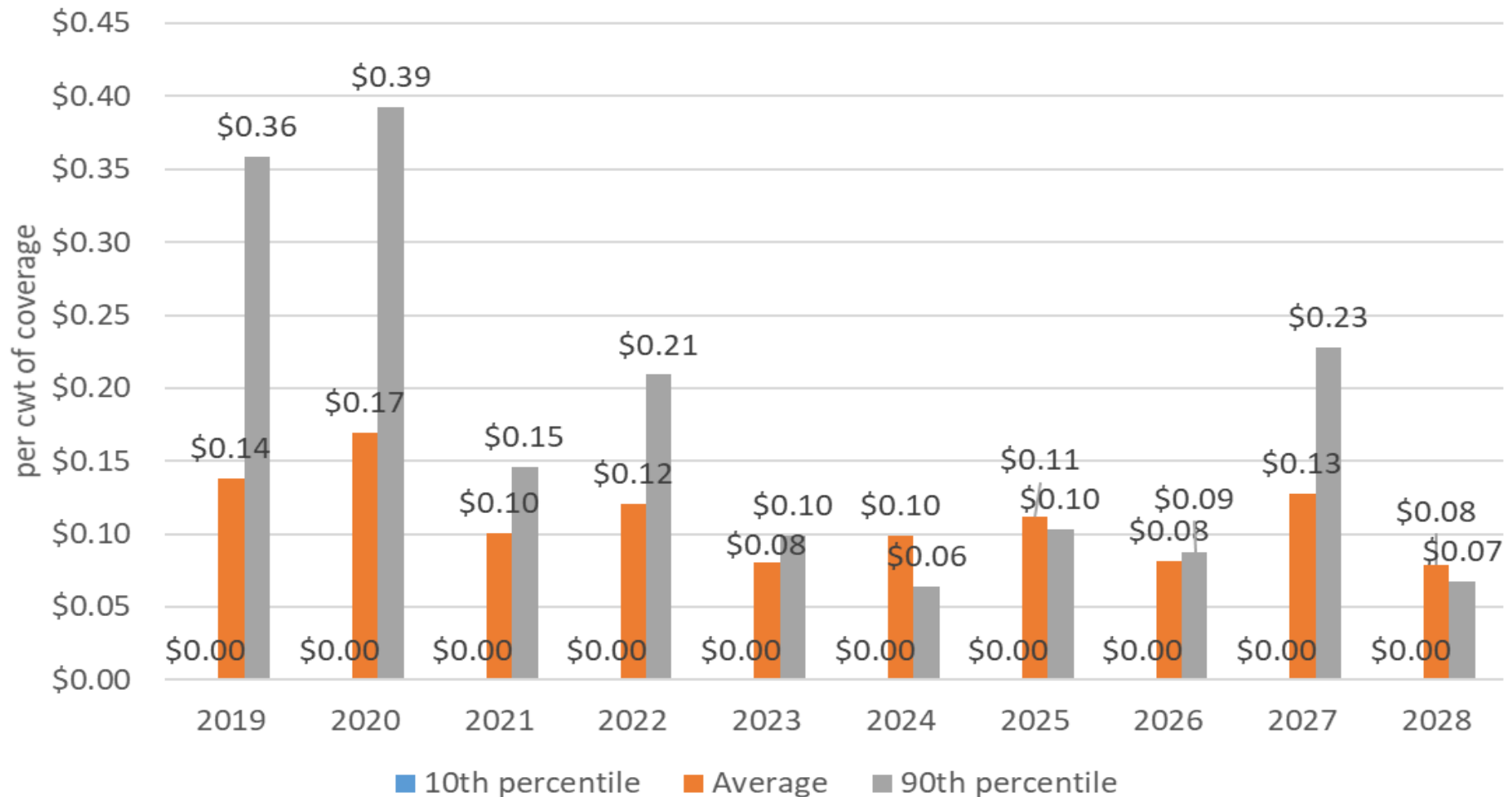
Annual DMC margin



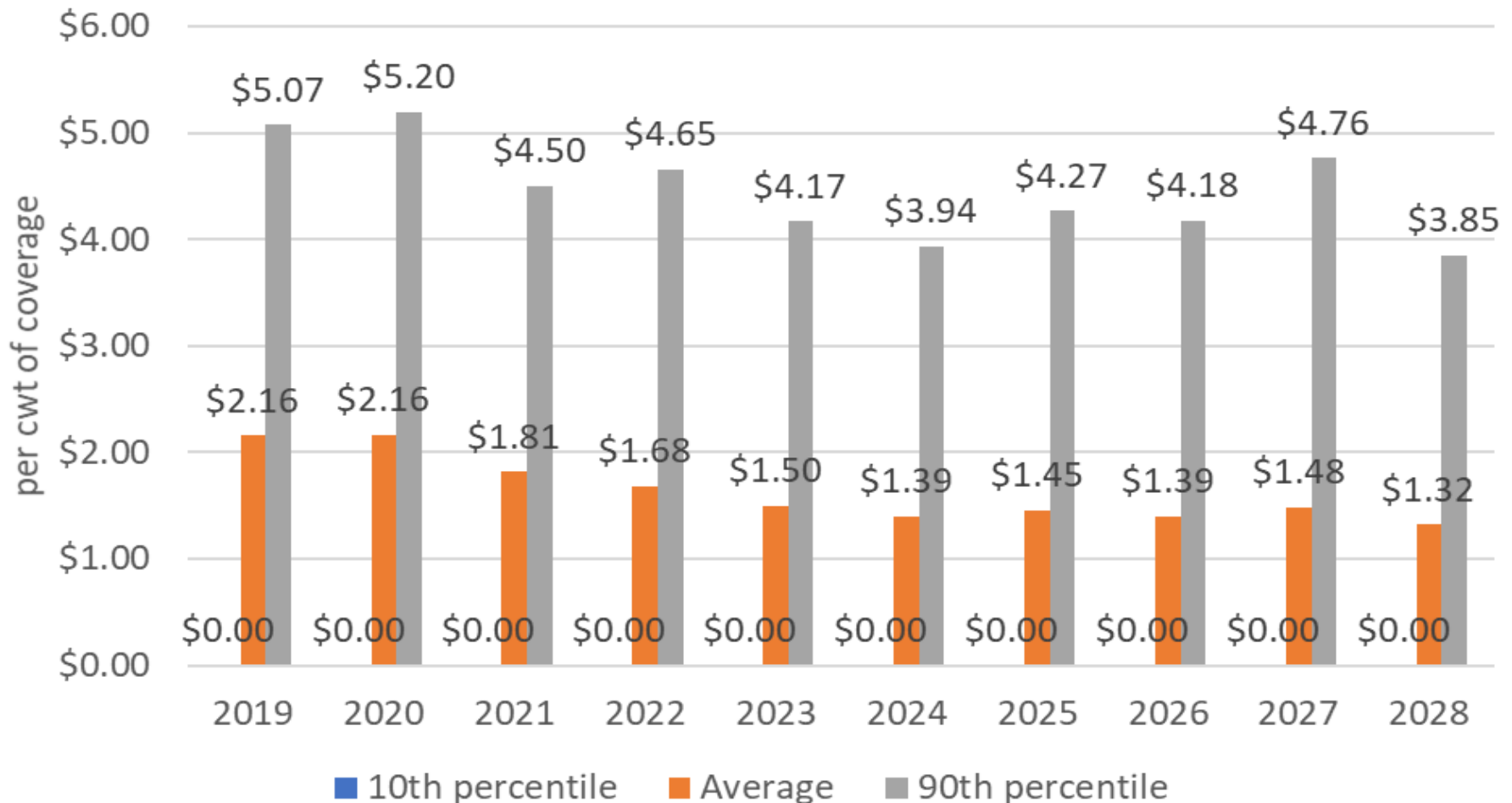
All milk price



DMC payments at \$4.00 coverage

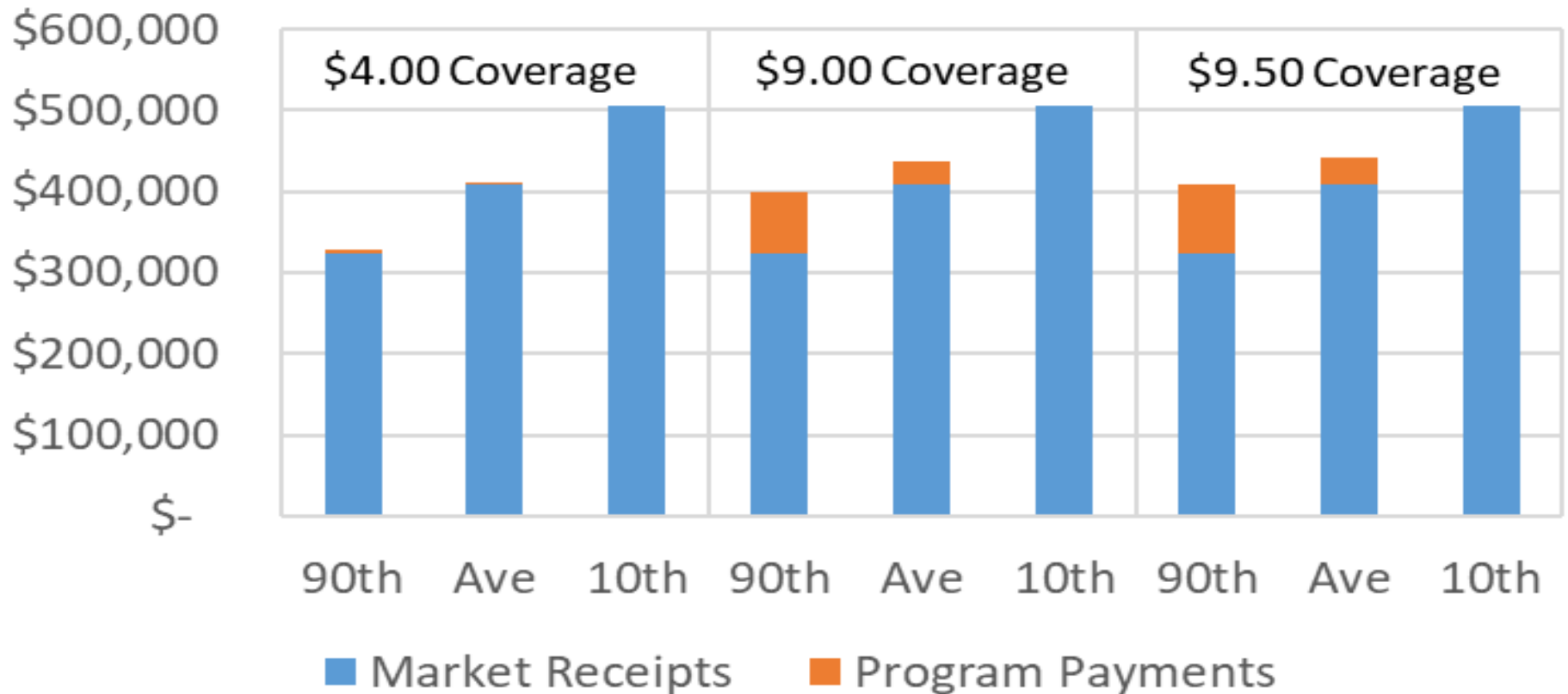


DMC payments at \$9.50 coverage

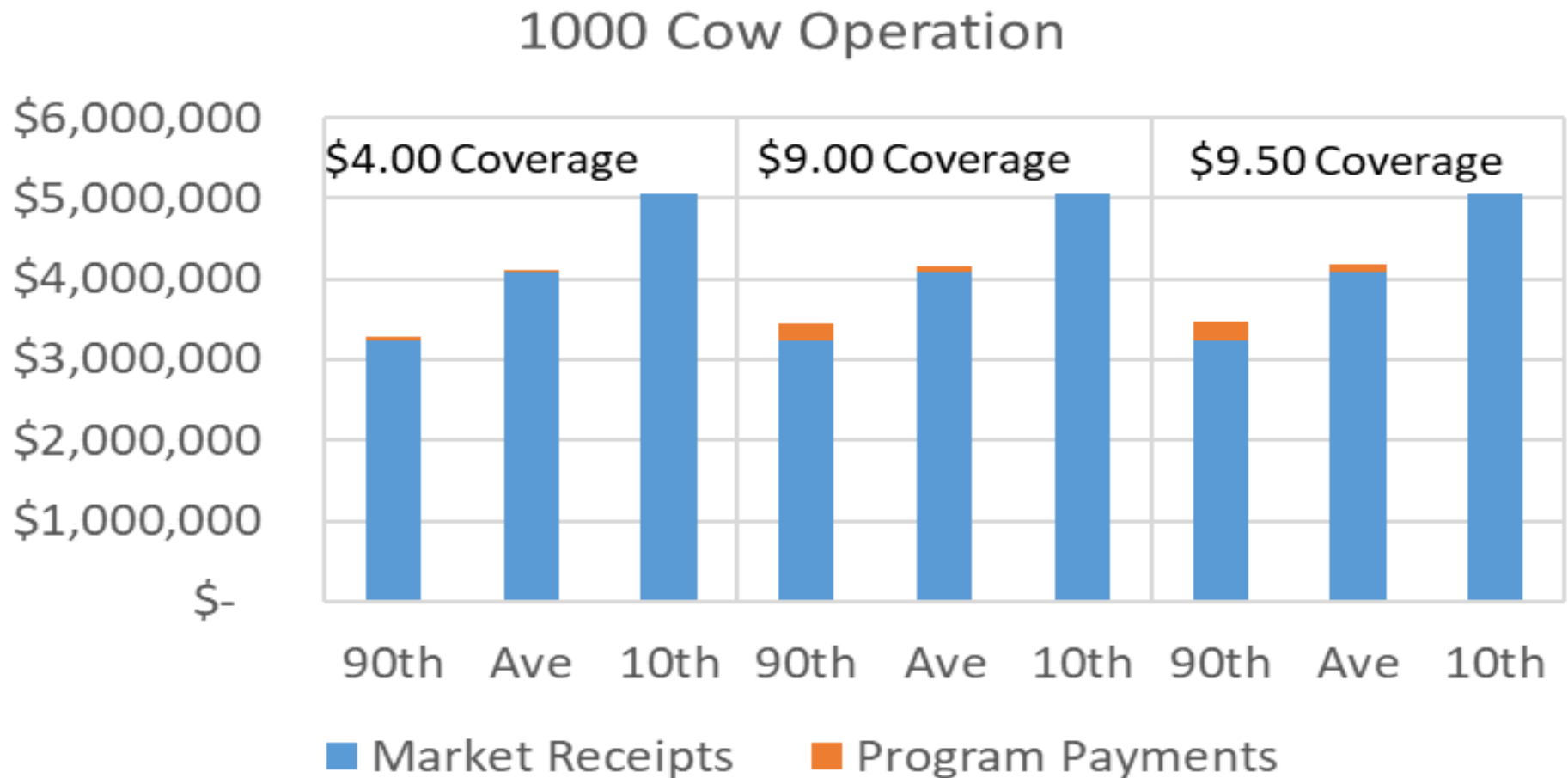


Example farms

100 Cow Operation



Example farms



Potential issues

- Supply response too great?
 - ▣ Maximum of 30% of milk eligible
 - ▣ Supply inducing – aggregate versus individual response
- Government cost
 - ▣ Low margin periods could equate to billions of dollars
 - ▣ High margin periods – premiums paid with no program payments
- Formula issues?
 - ▣ Feed coefficients - drought
 - ▣ What unfolds that isn't captured by the formula or national prices used



Questions

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WEEKLY LIVESTOCK MARKET UPDATE WITH SCOTT BROWN



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