Dairy Revenue Protection program goes live in October
By Geoff Vanden Heuvel, Director of Regulatory and Economic Affairs

Dairy Revenue Protection (Dairy RP) is a program that will allow dairy producers to purchase crop insurance protection on milk income. The program will allow you to lock in a guaranteed revenue based on futures prices for class III and/or class IV milk. There is also the option of basing your revenue guarantee on your butterfat and protein components if that makes more sense for you.

The program structures the policies to cover quarterly volumes of milk at prices based on the closing futures prices each day. When the program goes live starting October 9, policies will be for sale that cover the 1st quarter of 2019 and also the next four quarters, going all the way through the 1st quarter of 2020. The revenue guarantee of the policy will be that day’s closing price for whatever combination of class III and IV you choose for the three months of the quarter averaged together, multiplied by the amount of hundredweights you decide to cover for that quarter, multiplied by a coverage level that can range from 95% down to 70%.

You can buy as little or as much coverage as you want. You can buy for whatever periods you want. You can buy differing amounts on different days and you can buy component-based coverage along with the class price coverage. There is great flexibility to this plan, but you do have to ultimately produce at least 85% of the milk you insure for a quarter, or there is a penalty. This is a disincentive to over insure. Here is what makes this program different than simply purchasing puts – the government will pay at least 44% of the premium.

So, what are the premiums? We do not have numbers on that yet and we will not have those numbers until October 9 when the program goes live. Then of course the premium amounts will vary depending on the underlying futures prices. We know that the premiums for the close quarters will be less than the further out quarters. And the range that has been indicated by the creators of the program are that they expect premiums to be in the $0.10 - $0.40 range per cwt. of covered milk. Premium payments for purchased policies are not due until after the end of the covered quarter, so no money is due up front.

This program is a crop insurance program approved and regulated by the Risk Management Agency of USDA. It is only sold through crop insurance agents, who market it through private crop insurance companies. Milk Producers Council wanted to make sure that California producers would be in a position to take advantage of this program.

To that end, I took the training and became licensed to actually sell Dairy RP policies to interested producers and would happy and honored to have the opportunity to tell you more about the details of the program to see if it is a fit for your operation. Feel free to give me a call at 909-730-1240 or email me at Geoff@milkproducers.org. In addition, Dr. John Newton, the senior economist at the American Farm Bureau who was one of the creators of Dairy RP is giving a webinar on this topic on Friday, September 28, 2018 at 11:30 a.m. Pacific time, which you can sign-up to participate by clicking here.
Like any agriculture program that involves government money, producers who purchase Dairy RP insurance policies have to comply with the USDA conservation requirements outlined in Form AD-1026. If you are signed up for the Margin Protection Program then you already in compliance with this requirement. Even though you cannot buy a Dairy RP policy until after October 9, you can register to be eligible to buy Dairy RP by submitting a no-cost application with a crop insurance agent who is authorized to sell Dairy RP. Once an application has been submitted and accepted by the insurance company, you are locked into that company for the insurance year, so you want to keep that in mind as you evaluate the value of this program for you.