In the end, after months of partisan haggling, the Farm Bill was passed this week with overwhelming majorities in both the House and Senate. Reports in the general media say that dairy farmers got a safety net upgrade in this bill and I would agree with that. Are happy days here again? No, dairy farmers would be much happier if we had profitable milk prices, but the upgrades in the Farm Bill will be meaningful to many producers in the U.S. So, here is what we got.

The revised program is now called the Dairy Margin Coverage program, DMC for short. It is still focused on the margin between the monthly “all milk” price and a national representative feed cost calculation based on corn, soybean meal and alfalfa prices. Every month this national margin is calculated and producers who participate in the program can obtain heavily subsidized coverage that will make direct cash payments when the actual margin is smaller than the margin the producer chose to buy coverage for. The catch is that the really smoking good deal is for coverage on the first 5 million pounds of annual production. (5,000,000/365 days is 13,700# per day, about 200 cows)

On this first 5 million pounds of annual production, you can buy coverage for a margin as high as $9.50 per cwt. Analysis of historical prices shows that coverage at the $9.50 level will trigger payments over half of the time. You can obtain this coverage for a premium of $0.15 per cwt. But there is more. If you commit up front to buy this elevated level of coverage for all five years of the Farm Bill, there is a 25% discount in the premium, taking the cost down to $0.1125 per cwt. But there is still more, if you bought MPP coverage in the years 2014-2017, and you paid more in premium than you received in indemnity payments, you can get a refund of part of your premium. You can choose to apply 75% of that refund to premiums that will be due if you decide to participate in the DMC, or you can get a 50% refund in cash, even if you are no longer in operation.

So, what is the deal for producers who ship more than 5 million pounds per year? The rules have been changed so that large dairies can buy the 5 million pounds of tier 1 coverage for the very low price and if they buy the higher coverage levels ($8.50, $9.00 or $9.50) for the first 5 million pounds of annual production, then they can access tier 2 coverage for the rest of their production up to a total of 95% of the volume. The $5 margin coverage cost in tier 2 has been reduced to $0.005 which also qualifies for the 25% discount ($0.00375 per cwt.) if committed to for the full 5 years of the farm bill up front. In addition, all restrictions on participating in the two government-subsidized dairy crop insurance programs, LGM Dairy and the new Dairy Revenue Protection program, while simultaneously participating in the DMC program have been lifted. And by the way, the refund of any net premiums paid for MPP coverage for the years 2014-2017 can also be applied to premiums that might be due for participation in the new DMC program.

The DMC rate chart looks like this:
Additionally, Congress instructed USDA to review the data used in the calculation of the feed cost in the DMC to see if it actually represents the average dairy feed costs dairy farmers pay. They also instructed USDA to do a study that evaluates the difference in the cost between the use of corn silage and the cost of corn. And they ordered USDA to revise monthly price survey reports to include prices for high-quality alfalfa hay in the top five milk producing states as measured by volume of milk produced during the previous month. So further tweaks in the DMC calculations may be coming.

Another DMC program detail you will have to live with is the production base that was established for the original MPP program. That was based on the highest production from your facility for calendar year 2011, 2012 or 2013 adjusted every year by the annual increase in national milk production. There will be no further upward adjustments during the life of this Farm Bill.

One other change in the Farm Bill worth noting is a change to the Class I formula. Since Federal Order reform in 2000, Class I prices have been set to be a differential (which varies by region) over the higher of either the class III (cheese) value of milk or the class IV (butter/powder) value of milk. Because in any month, one or the other might be higher, it makes hedging those costs for the Class I bottlers difficult.

They approached producers some time ago and asked for a change that would use the simple average of the Class III and Class IV price as the Class I mover. A study was done and it was determined that the higher of feature since 2000 had added about $0.74 per cwt. to the Class I price over those years. The processors agreed to support raising the Class I differentials by $0.74 in exchange for producer support for moving to the average instead of the higher of Class III and IV. Congress agreed and instructed USDA to make this change in all the Federal Milk Marketing Orders.

On balance, Congress has done as much as they can for dairy farmers given the constraints of the budget and political realities.

I know there is a lot to digest here. I have scheduled a Farm Bill information webinar for Monday,
December 17 at 1 p.m. PST where I will go over the details of the dairy portion of the Farm Bill and do my best to answer questions. If you would like to join me, send me an email or call or text me and I will get you the connection information for the GoTo Meeting webinar. You can email me at Geoff@milkproducers.org or call or text me at 909-730-1240. All are invited.

Farm Bill Webinar
1 PM Pacific Time
Monday, December 17

Join MPC’s Geoff Vanden Heuvel for a breakdown of the recently passed U.S. Farm Bill and what it means for California dairy farmers.

All invited
RVSP to Geoff for webinar link
geoff@milkproducers.org
909-730-1240