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The Farm Bill and U.S. Dairy

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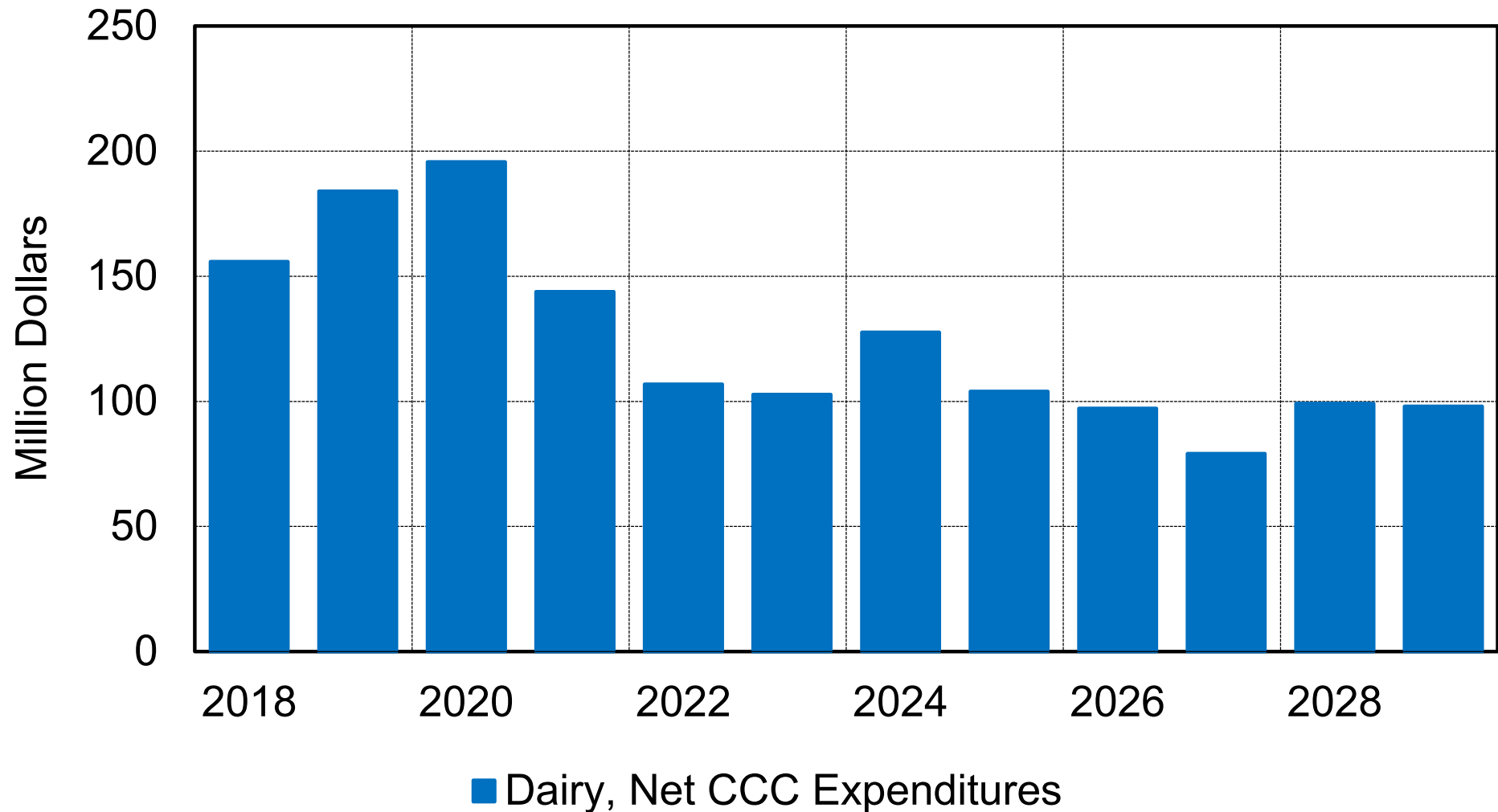
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Many different policy tools have been used in the U.S. dairy industry

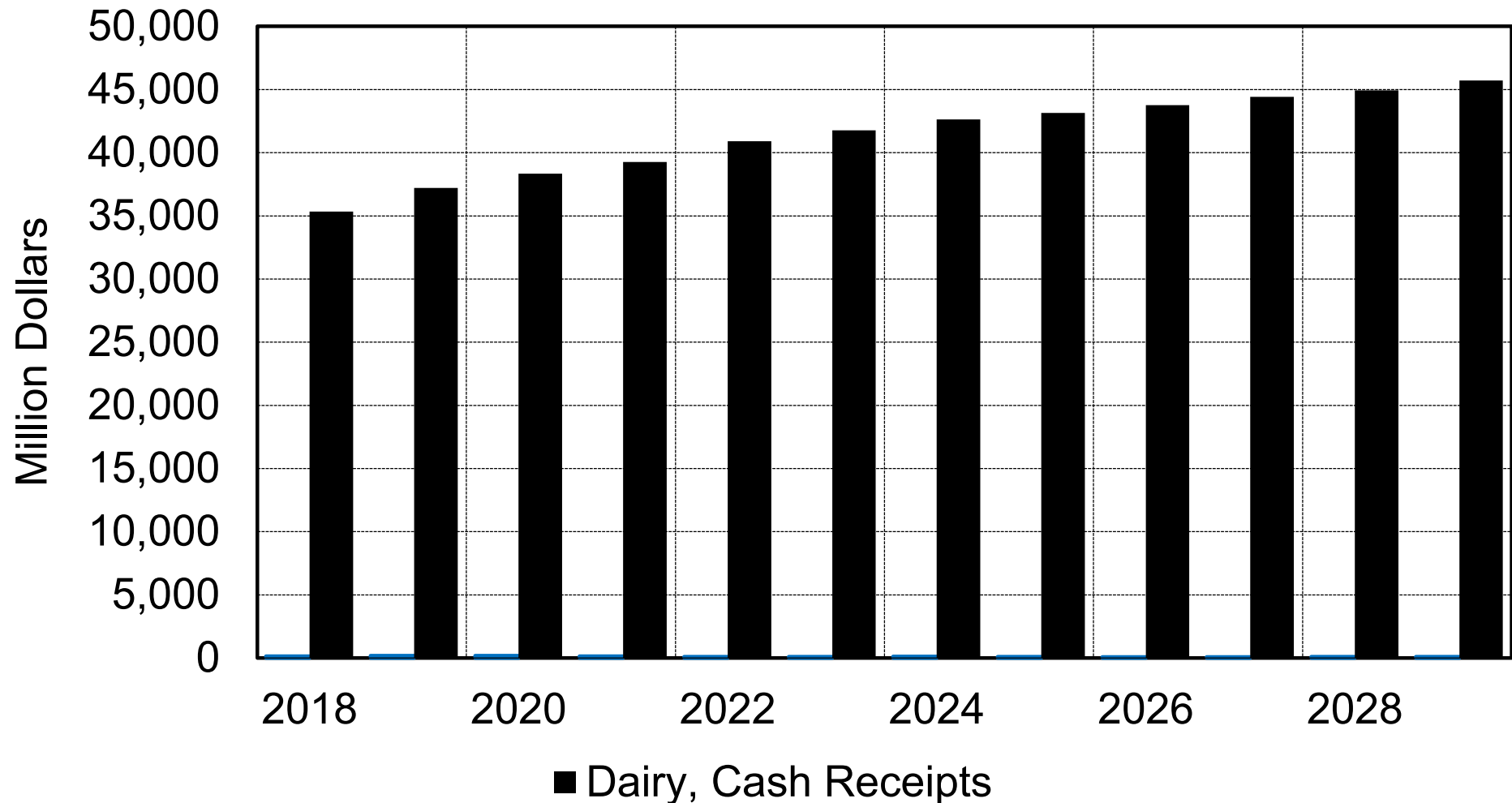
- **Price supports** – have been used to create market price floors
- **Direct payments** - partially moderate the effect of low milk prices on producers
- **Assessments** – economic incentive to curb production growth
- **Supply reduction** – direct approach to curb production growth
- **Orders** –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



Adequate dairy safety net with limited outlays



Adequate dairy safety net with limited outlays

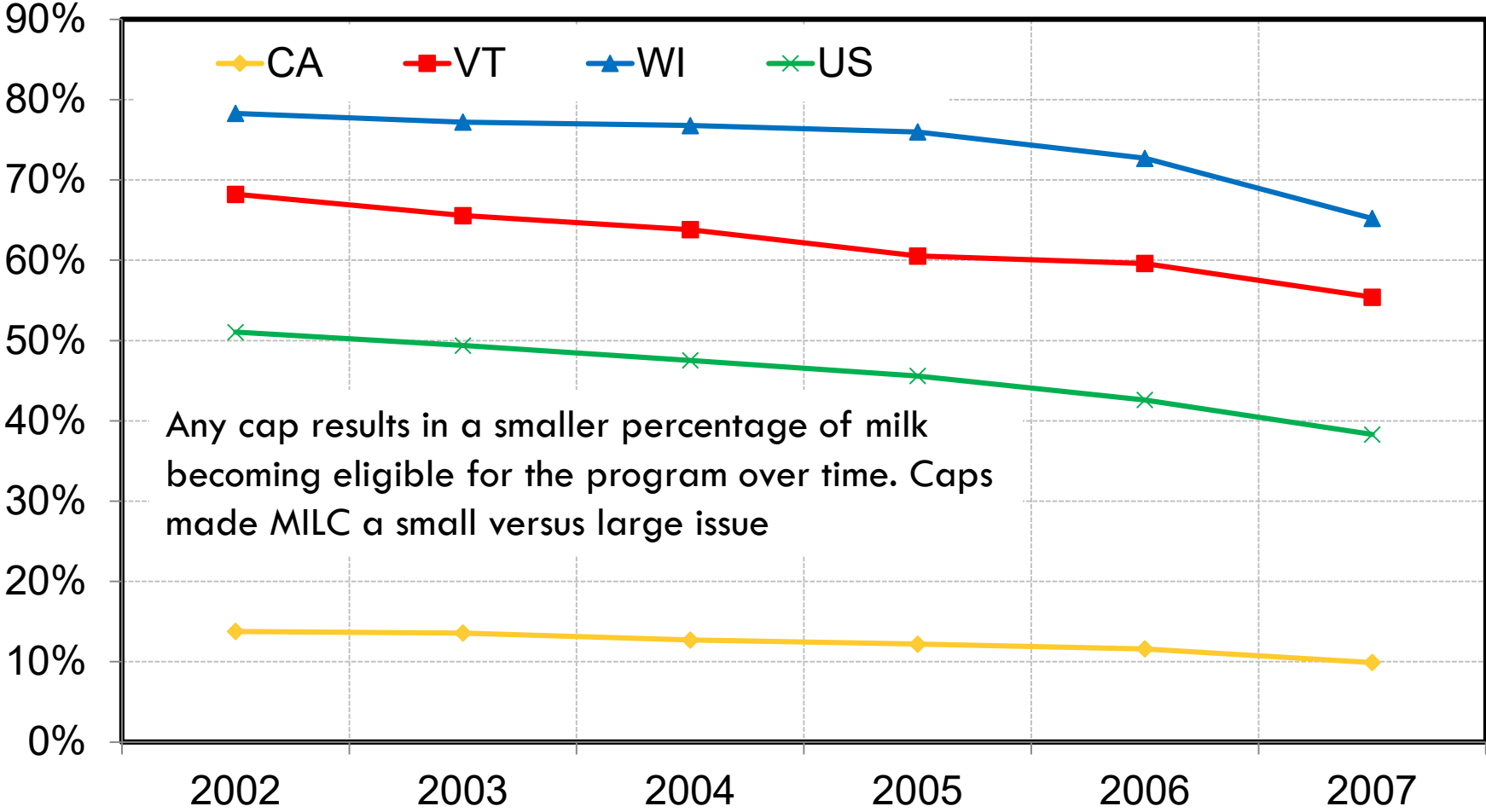


Milk Income Loss Contract (MILC) program

- 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

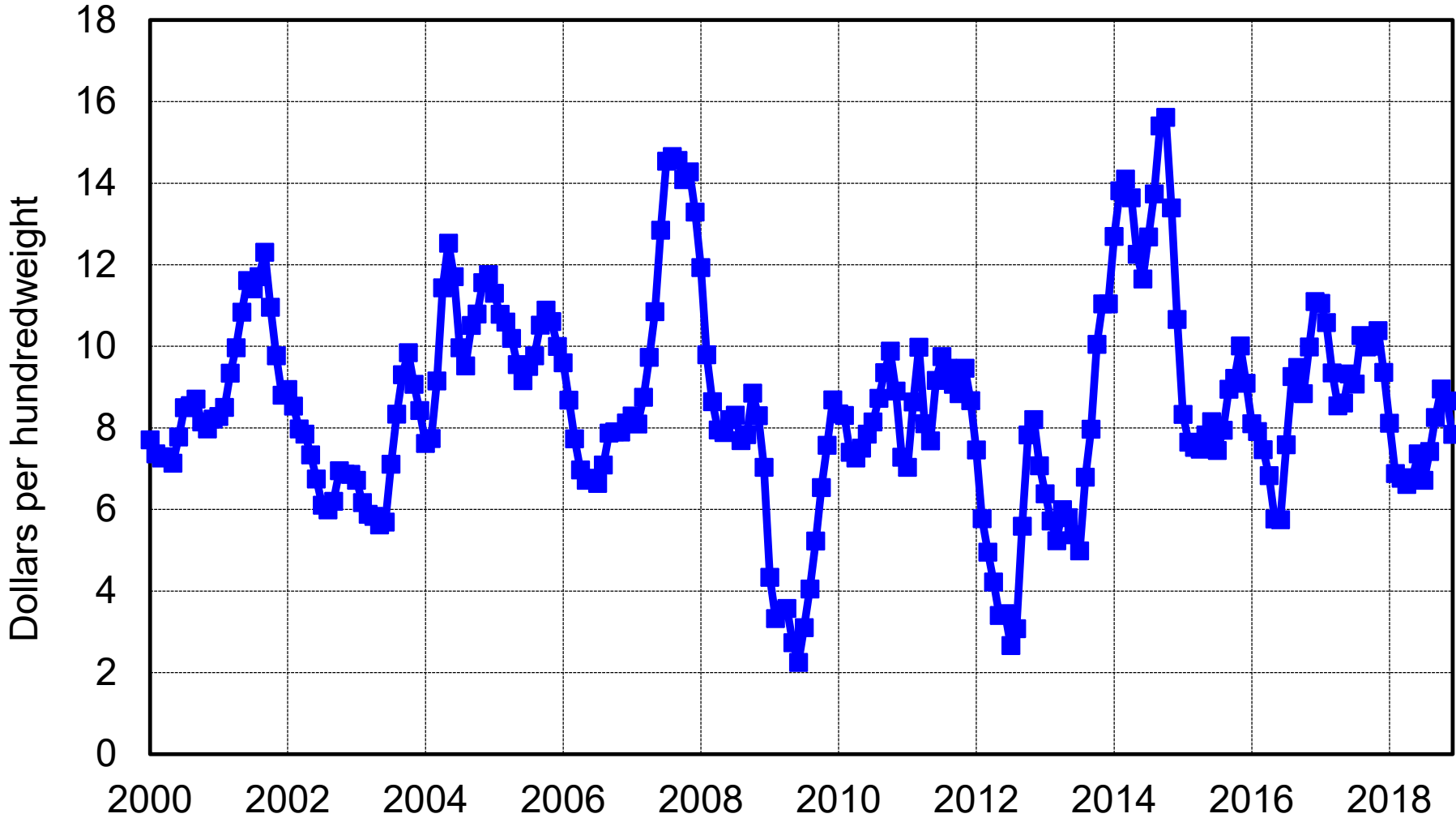


Margin Protection Program (MPP)

- 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

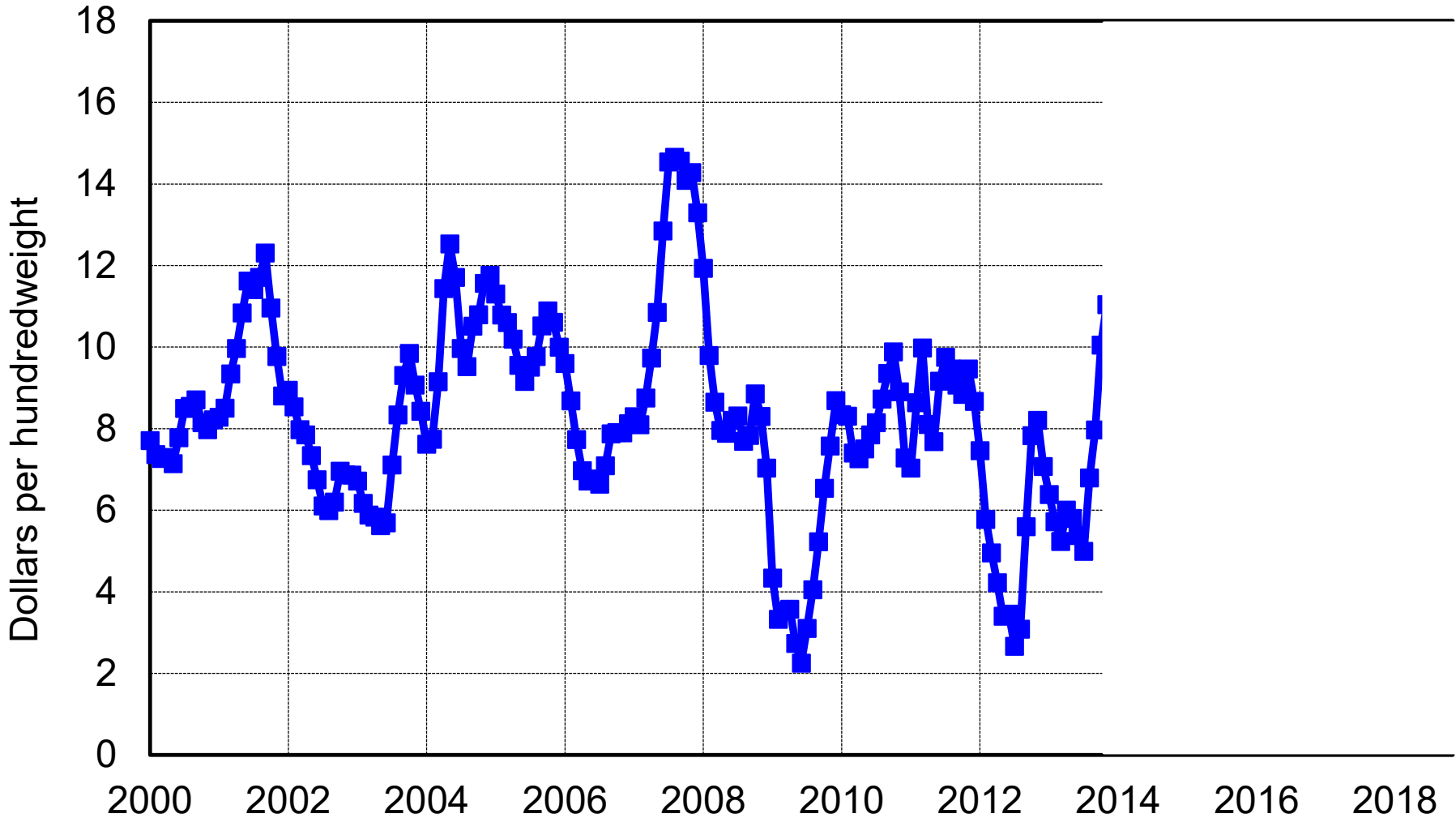


MPP premiums under the 2014 farm bill

| 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

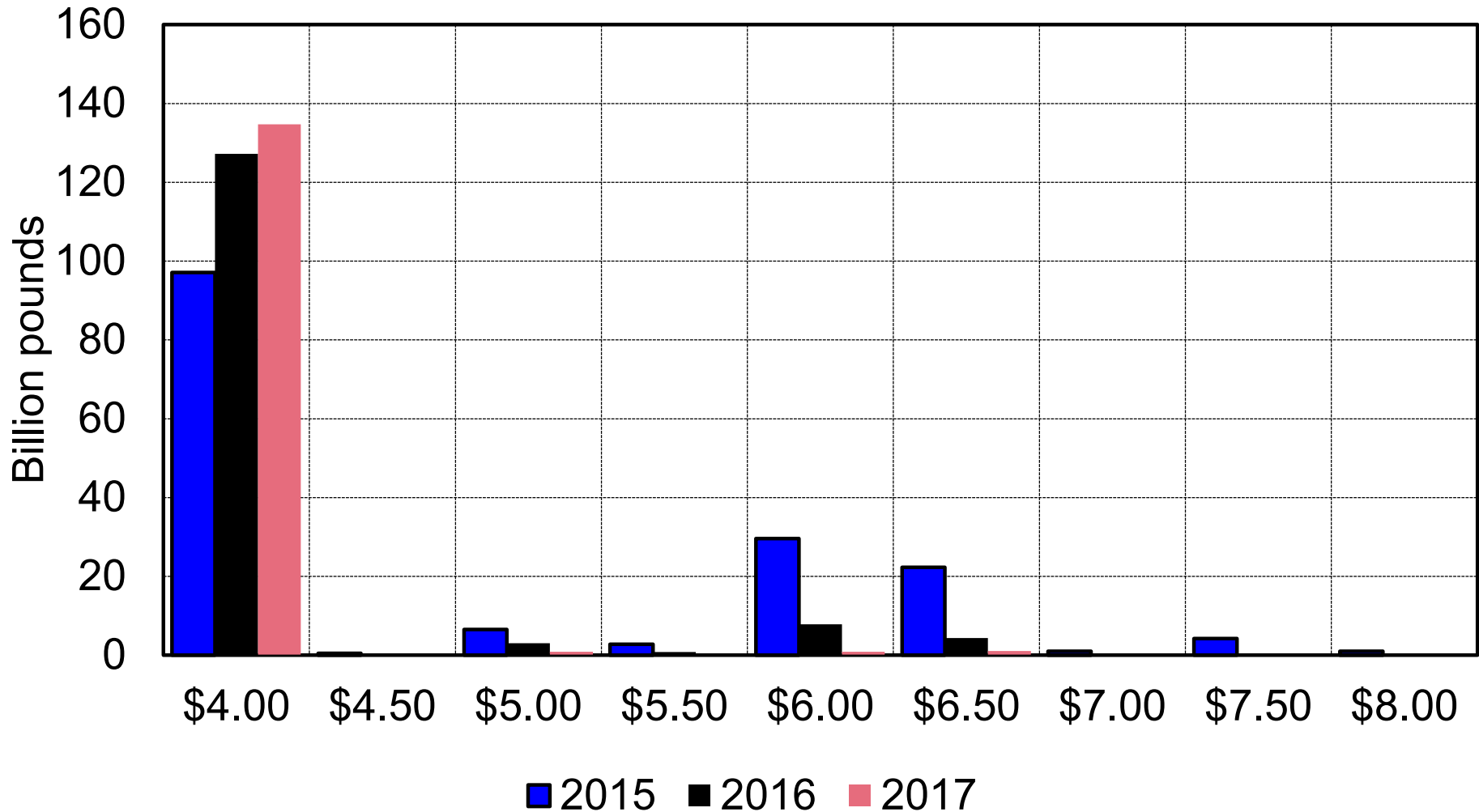


Program comparison

| | 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”



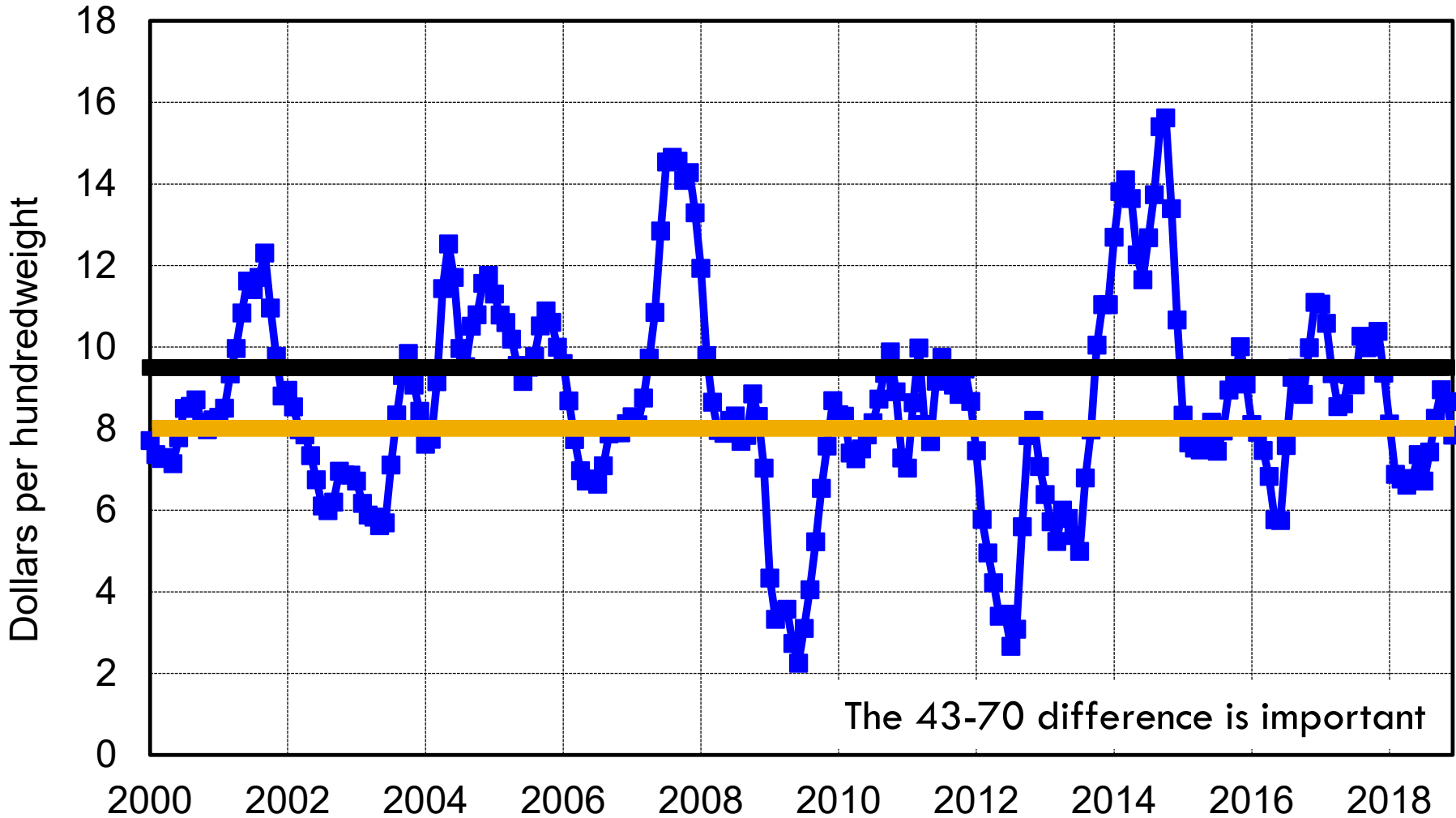
2018 farm bill, lower DMC premiums

DMC Premium Levels at Alternative Coverage Levels

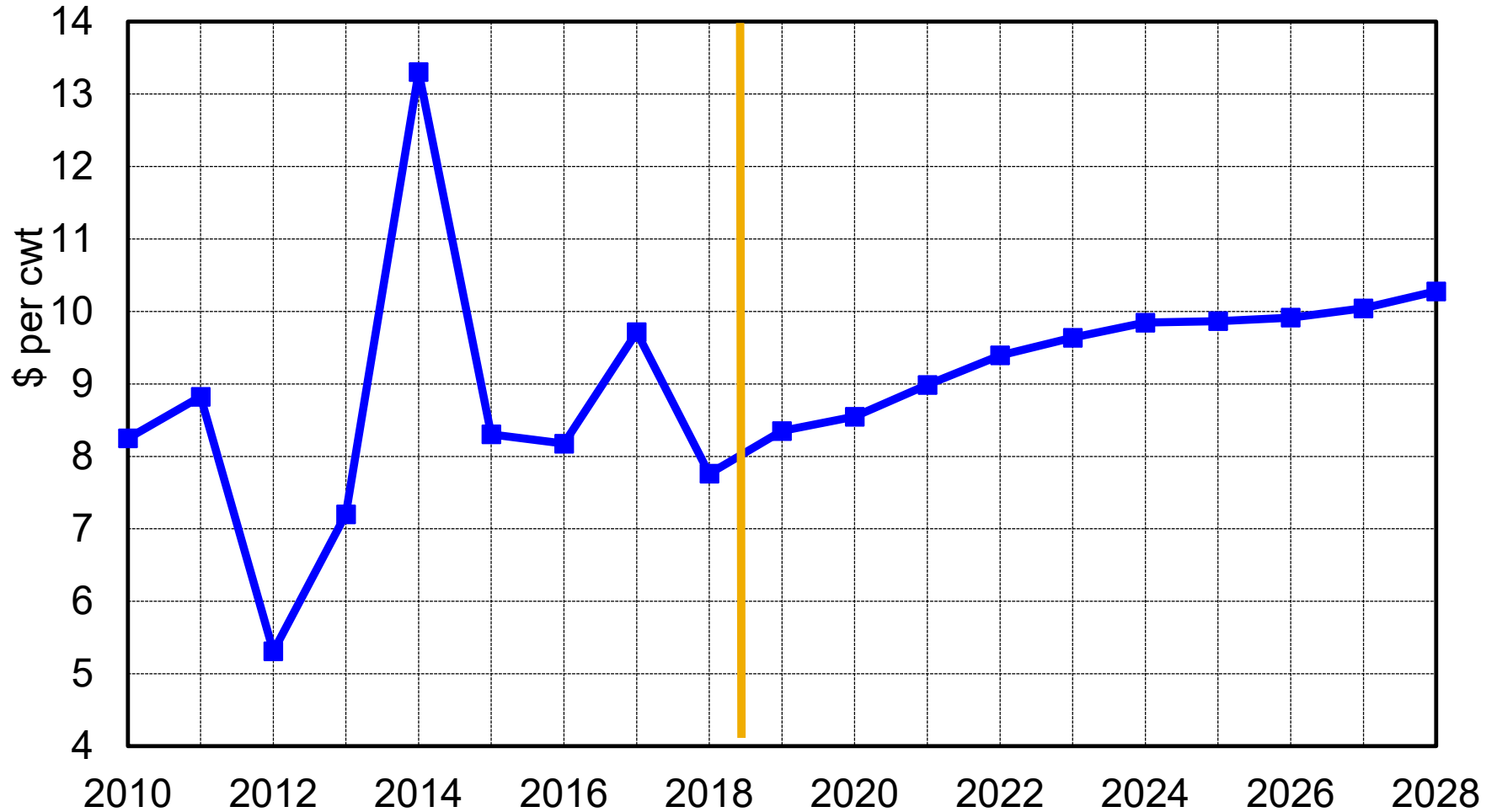
| Coverage | Premiums for: | |
|----------|----------------|----------------|
| | < 5 Mill. Lbs. | > 5 Mill. Lbs. |
| \$4.00 | \$0.0000 | \$0.0000 |
| \$4.50 | \$0.0025 | \$0.0025 |
| \$5.00 | \$0.0050 | \$0.0050 |
| \$5.50 | \$0.0300 | \$0.1000 |
| \$6.00 | \$0.0500 | \$0.3100 |
| \$6.50 | \$0.0700 | \$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 |



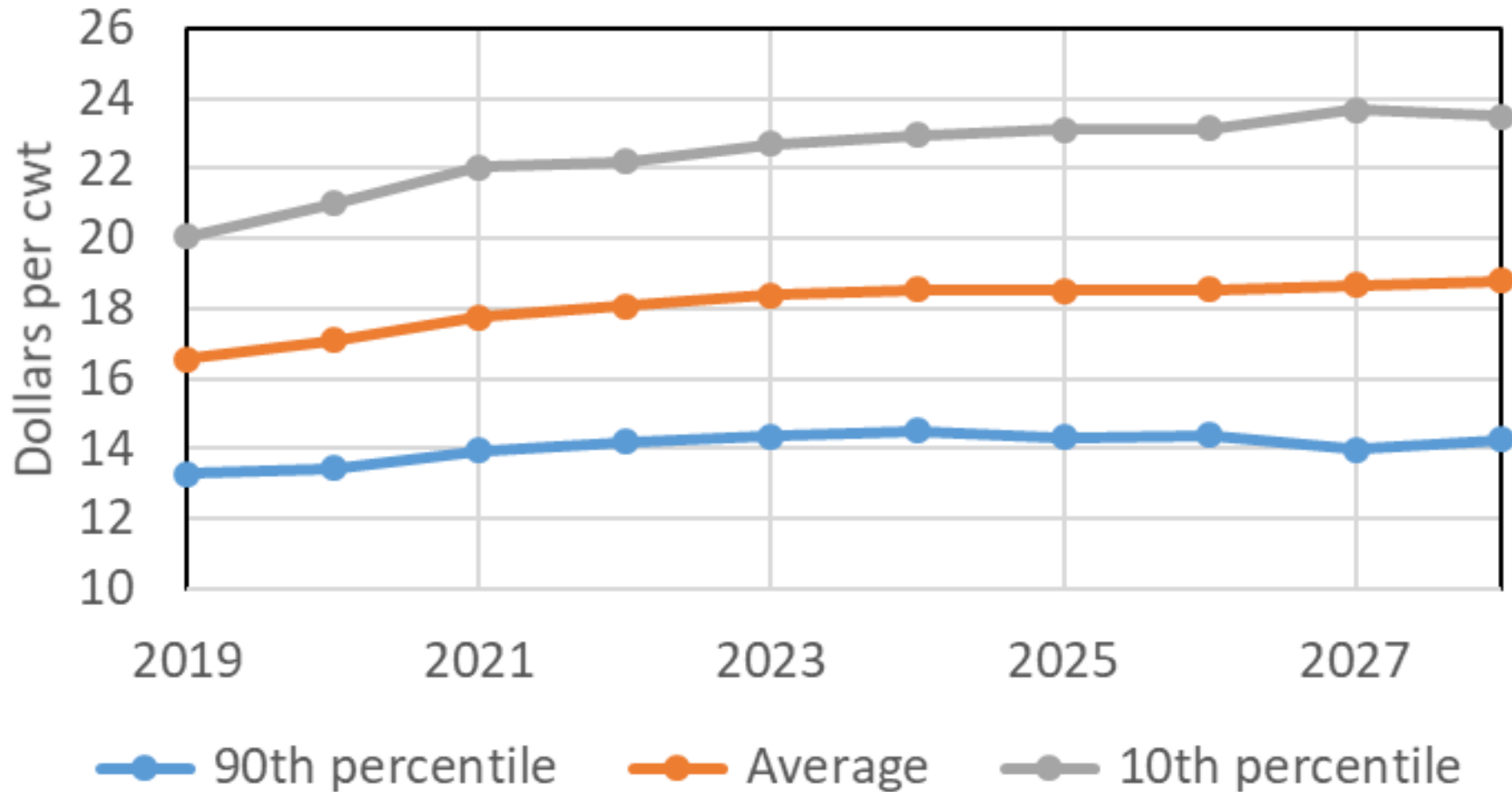
DMC Margin



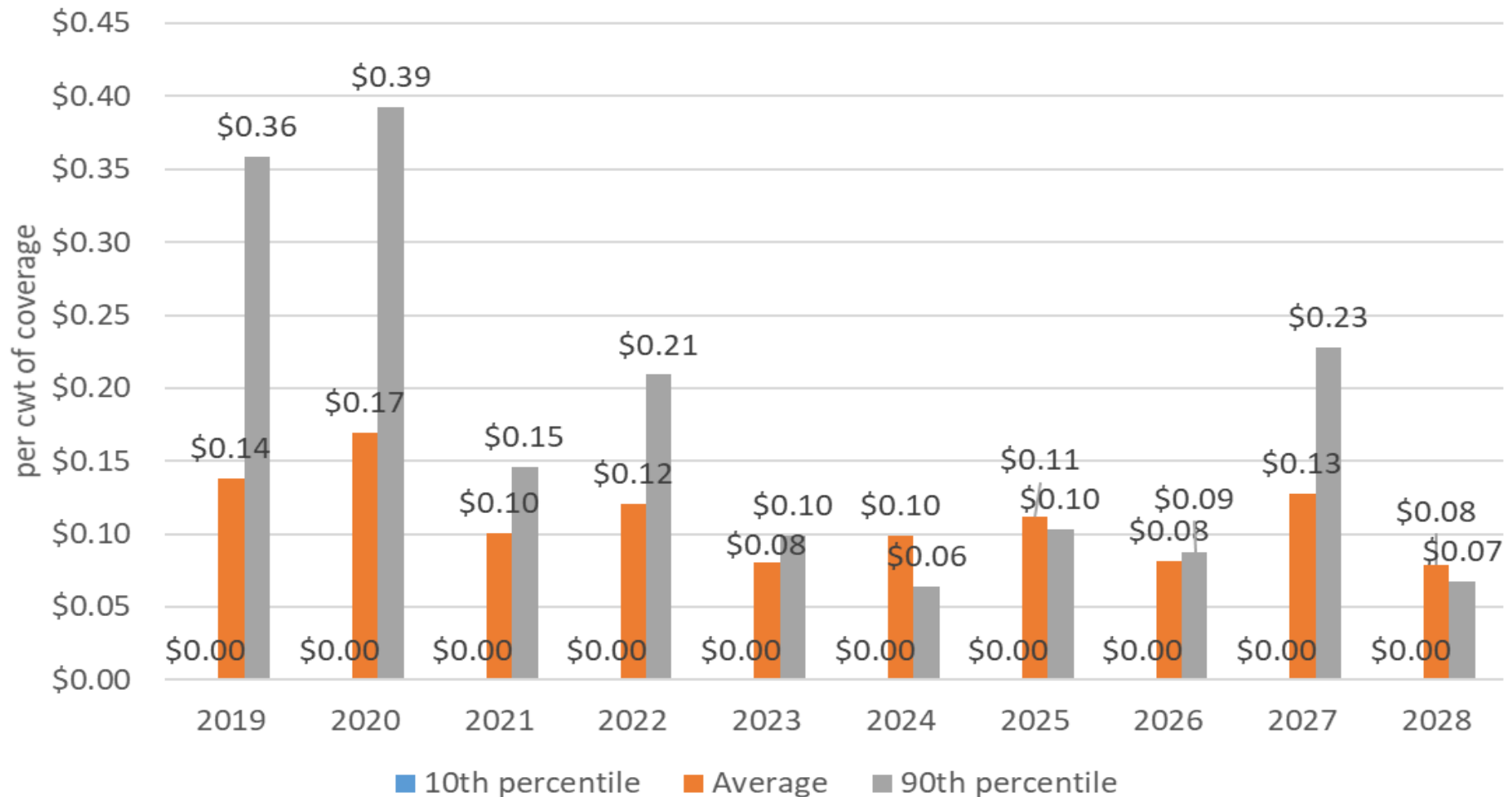
Annual DMC margin



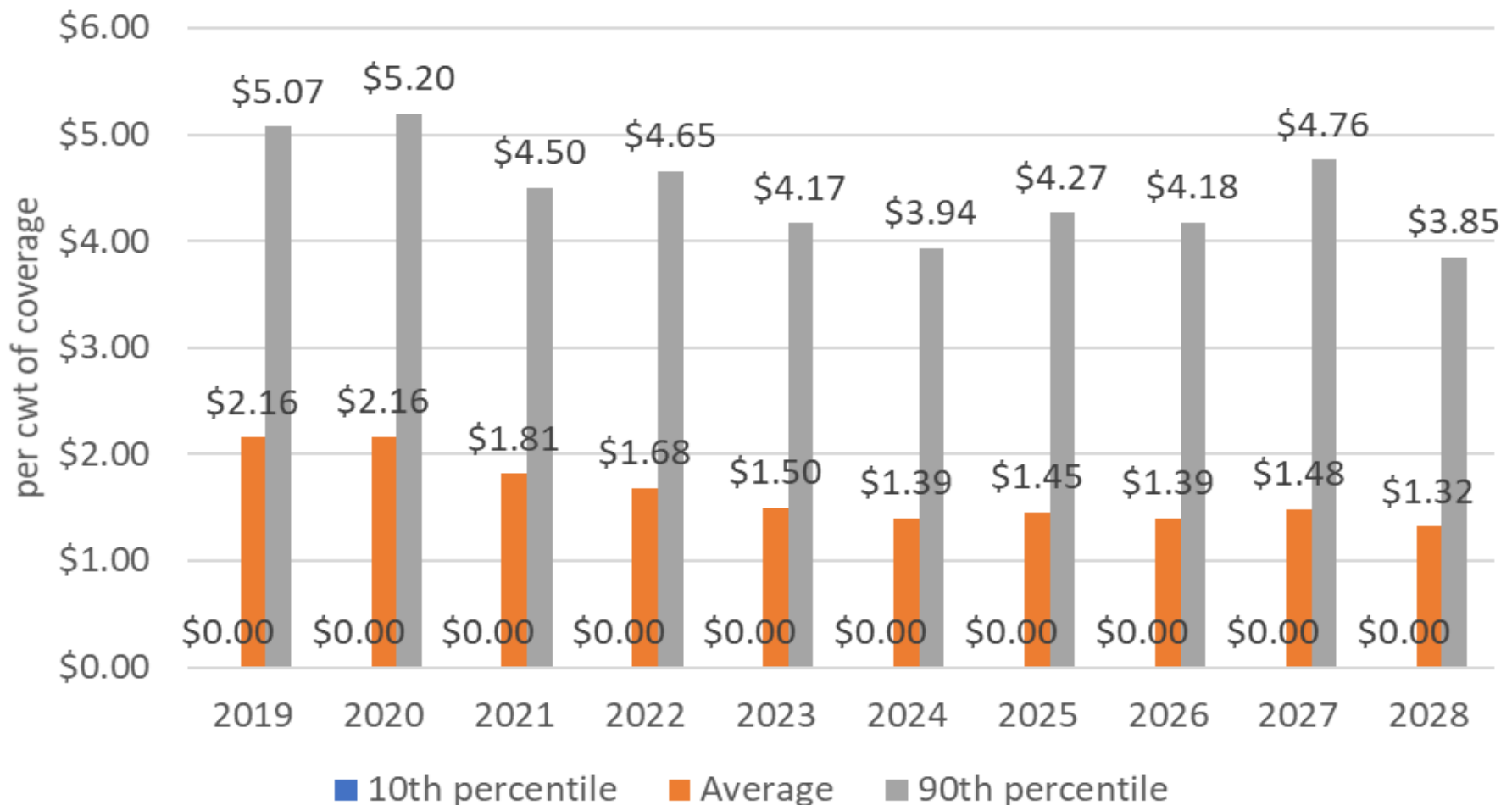
All milk price



DMC payments at \$4.00 coverage

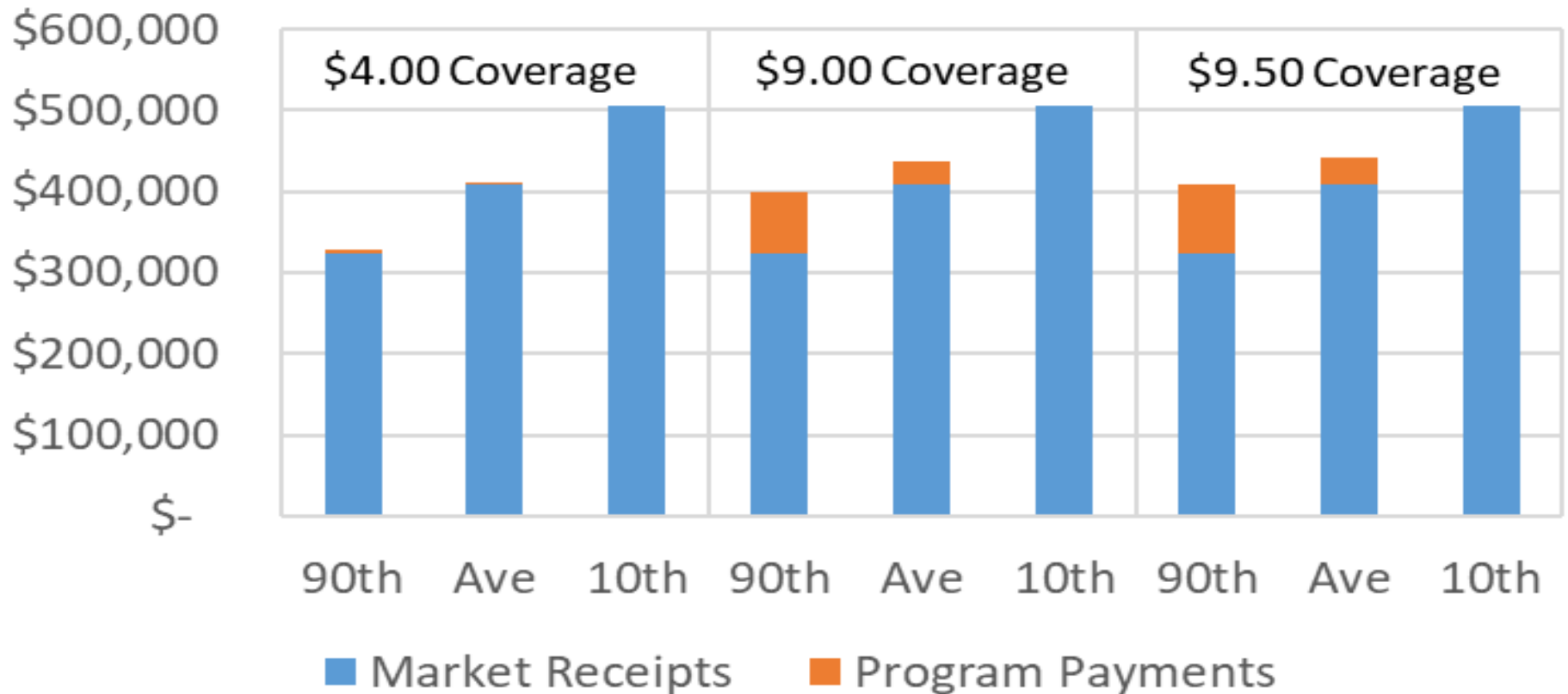


DMC payments at \$9.50 coverage

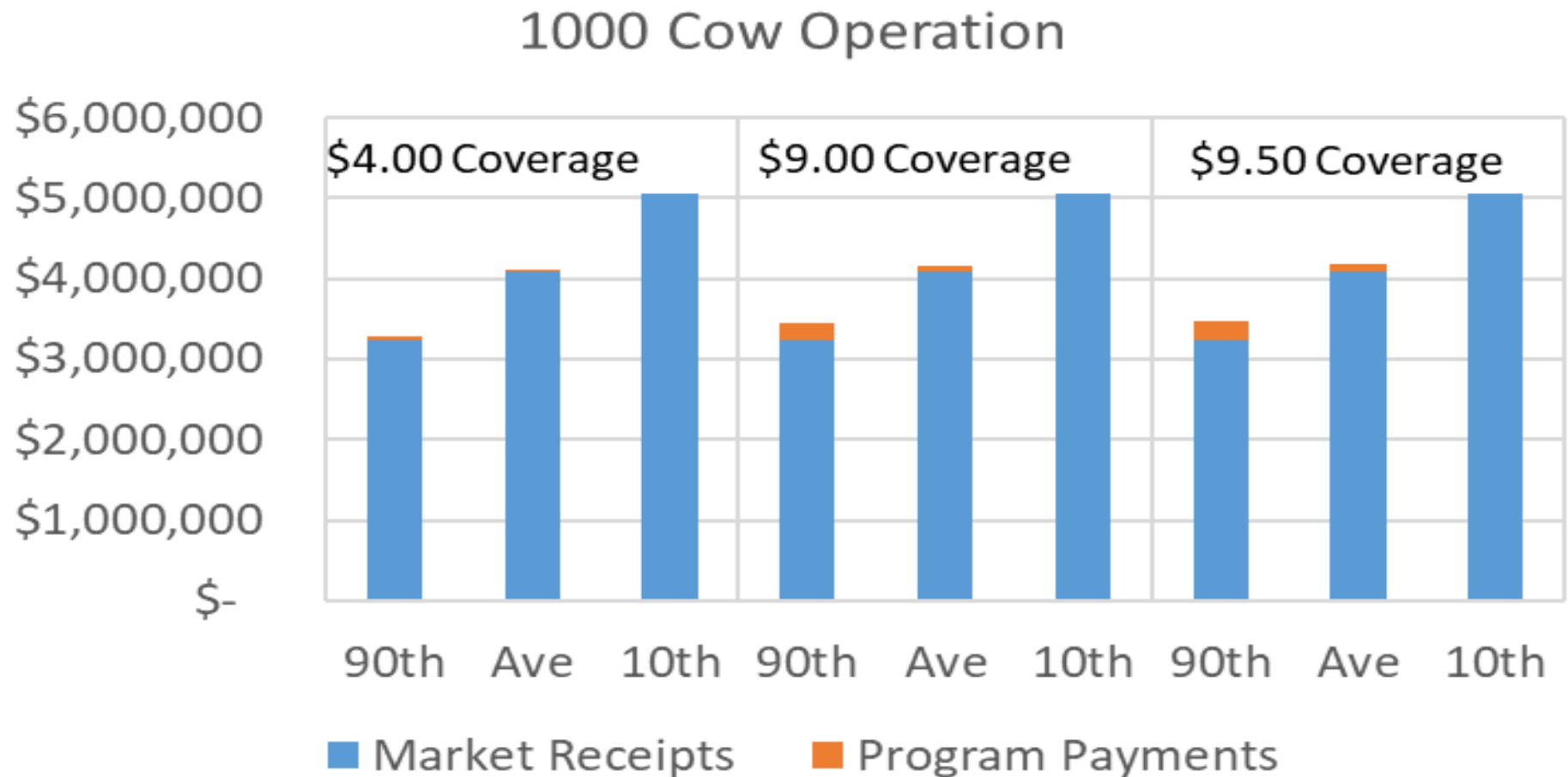


Example farms

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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