









US Agricultural Act of 2014 - Dairy provisions

28/03/2014

2008 Farm Bill Measures



PROGRAM	DESCRIPTION	
DPPSP: Dairy Product Price Support Program	Public intervention of dairy products (butter, cheese, powders). Virtual milk intervention price: 9,9 \$/cwt (~20 c/kg*)	
MILC: Milk Income Loss Contract	Coupled payment Triggered when Class I milk falls below 16,9\$/cwt in the Boston market. Payment: 45% difference between target price and market price. Adjustment on feeding costs. Limited to first 1 354 t (~150 cows)	
FMMOs: Federal Milk Marketing Orders	Price fixing mechanism composed by: <u>Classified pricing of milk</u> : Minimum price paid by processors for farm milk depending on its end use. + <u>Weighted average price</u> paid to all farmers in a region for fluid milk (based on value of milk components in dairy products).	
DEIP: Dairy export Incentive Program	Export refunds	
TQs: Dairy Import Tariff Rate Quotas	'Prohibitive' Import duties for volumes above quota.	
Other smaller and pilot programs for research, promotion, reporting, forward pricing, milk contamination, Livestock Gross Margin (LGM) Insurance for Dairy.		

New instruments



Margin Protection Program
(Coupled payments)

Dairy Product Donation Program
(Public intervention)



- **Coupled counter-cyclical payment**
 - Based on an estimated national operating Margin=
National average farm all-milk price – Feed cost estimation.
- not representing whatsoever the actual margin of an individual farm
- Program covers the gap between a subscribed guaranteed margin and the national calculated operating margin

Margin Protection Program



Characteristics:

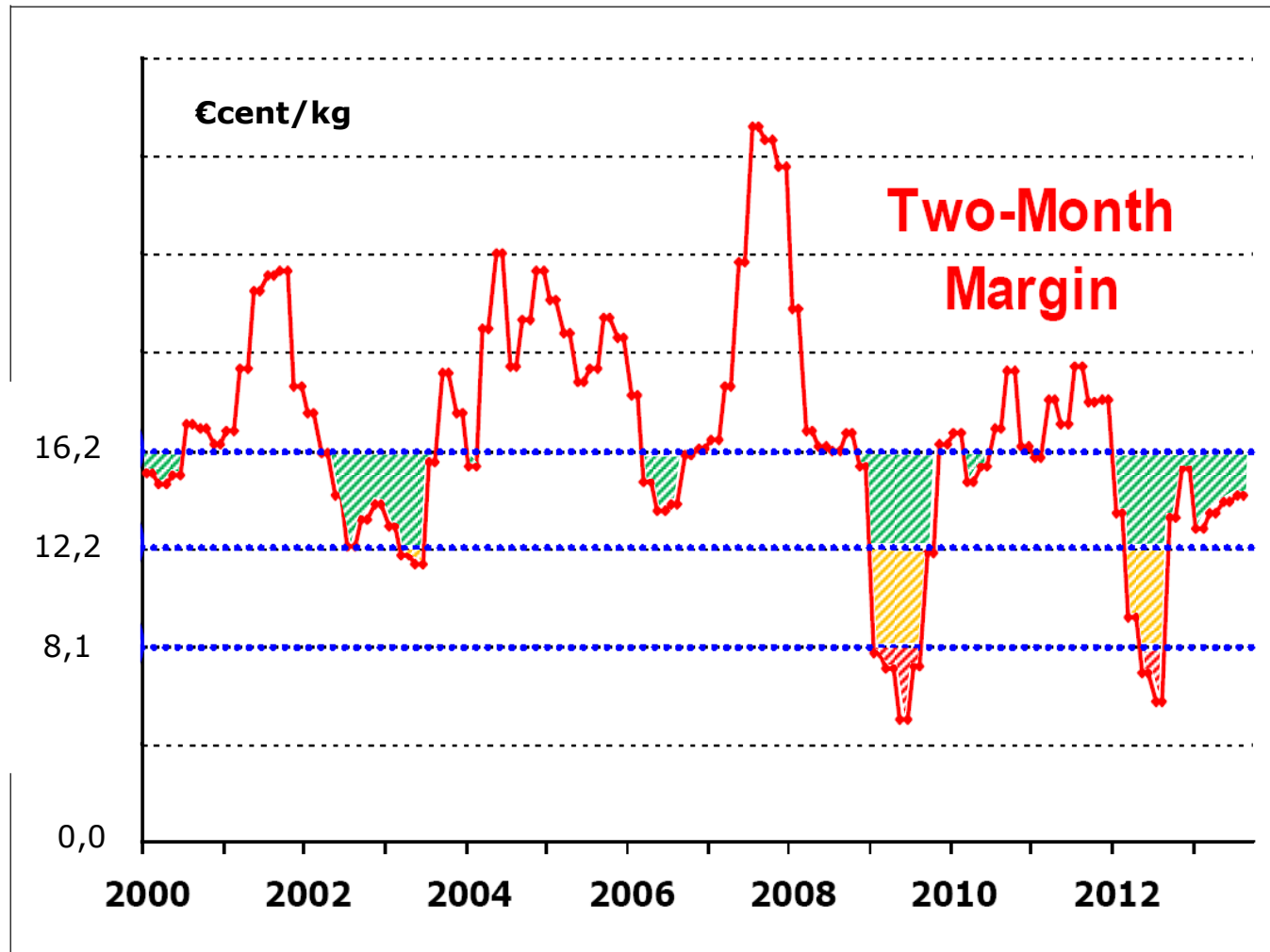
- Voluntary*
- Incompatible with the Livestock Gross Margin for Dairy program !
- Annual
- Fee (100\$/year)+ Premium
- Flexible:
 - Coverage threshold: 8,1 €cent/kg – 16,2 €cent/kg
 - % Coverage: 25% - 90%

Once producers sign up, they are obligated to participate in the program for the life of the 2014 farm bill (through calendar year 2018)

Dairy operating margin



The Dairy Operating Margin: (All-Milk Price) Minus (Average Feed Cost)



Source: Margin (national average all-milk price minus average cost of feed ration) calculated by CRS using USDA data (*Agricultural Prices*, September 27, 2013) and based on the two-month periods: Jan.-Feb., Mar.-Apr., May-June, July-Aug., Sept.-Oct., and Nov.-Dec.

Dairy operating margin



Sign Up for MPP-Dairy by *September 30, 2015*

Tired of Roller Coaster Milk Margins?

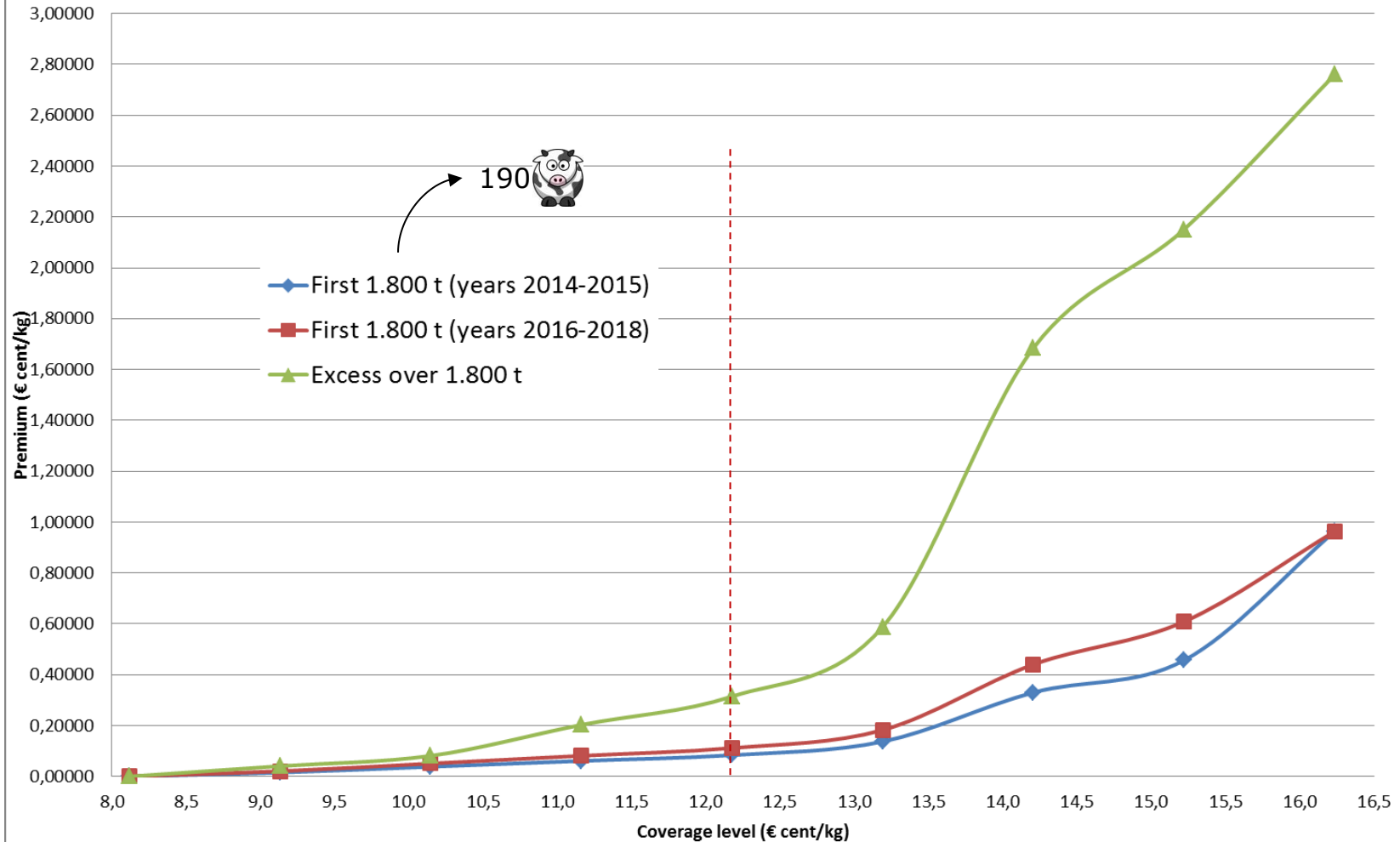
Sign Up for the New Dairy Program to help smooth your income stream!



Margin Protection Program



Premiums for Margin Protection Program



Margin Protection Program



	1.500 t Farm (160 cows)			9.500 t Farm (1.000 cows)		
Coverage (€ cent/kg)	25%	50%	90%	25%	50%	90%
8,1	€0	€0	€0	€0	€0	€0
9,1	€57	€114	€205	€850	€1.700	€3.059
10,1	€143	€285	€514	€1.734	€3.468	€6.242
11,2	€228	€457	€822	€4.180	€8.361	€15.049
12,2	€314	€628	€1.130	€6.432	€12.863	€23.154
13,2	€514	€1.027	€1.849	€11.945	€23.890	€43.002
14,2	€1.239	€2.477	€4.459	€33.909	€67.818	€122.073
15,2	€1.712	€3.424	€6.164	€43.462	€86.925	€156.464
16,2	€3.615	€7.229	€13.013	€57.464	€114.929	€206.872

Margin Protection Program



Payment:

USDA calculated margin for a consecutive 2-month period (Jan-Feb, Mar-Apr, May-Jun, Jul- Aug, Sep-Oct, Nov-Dec) < selected coverage level threshold

$$(coverage\ threshold - USDA\ avg\ margin) \times \% coverage \times \frac{Production\ history^*}{6}$$

*highest production in 2011, 2012 or 2013 + annual adjustment

Dairy Product Donation Program



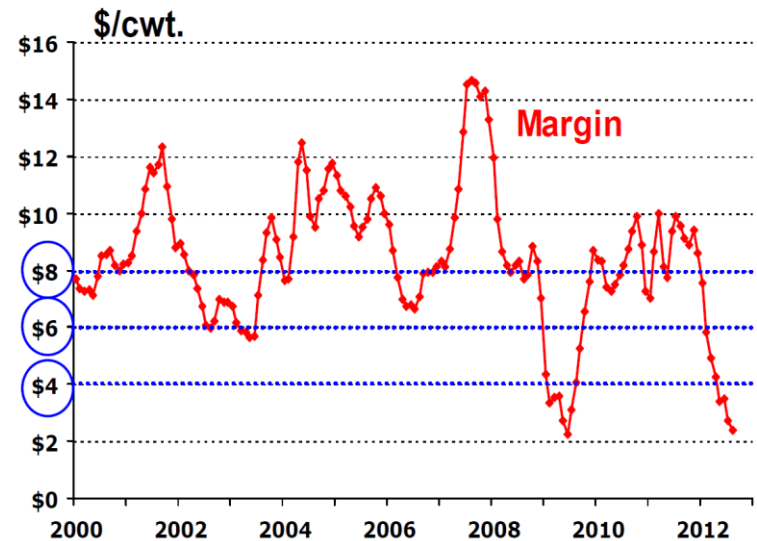
- **Public intervention for further donation to low-income groups**
- triggered in the event of extremely low operating margins

Dairy Product Donation Program



Characteristics:

- Activated when 'actual' margin $\leq 8,1$ ¢cent/kg for two consecutive months
- Dairy products bought-in at prevailing market prices
- Types and quantities: consultation with organizations organized to feed low-income populations
- Purchased products will be distributed, but not stored
- Organizations receiving the products may not sell them back into the commercial markets





Deactivation:

- After three consecutive months, independently from the actual dairy production margin.
- Actual dairy production margin $> 6,5$ €cent/kg in a month.
- Actual dairy production margin $< 6,5$ €cent/kg, **but** cheddar and SMP are competitive in the world markets (5% or 7% below world prices, depending on the conditions).

Margin Protection Program



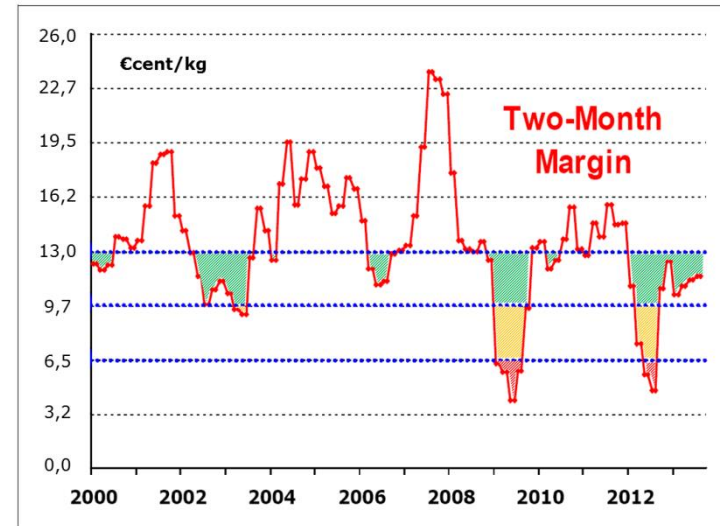
Simulation: cost-benefit for the farm

Average Farm: 1,500 t, 90% production

{ Mid (6\$~12,2c€) coverage
{ High (8\$~16,2c€) coverage



The Dairy Operating Margin: (All-Milk Price) Minus (Average Feed Cost)



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Representative Farm: 9,500 t, 90% production

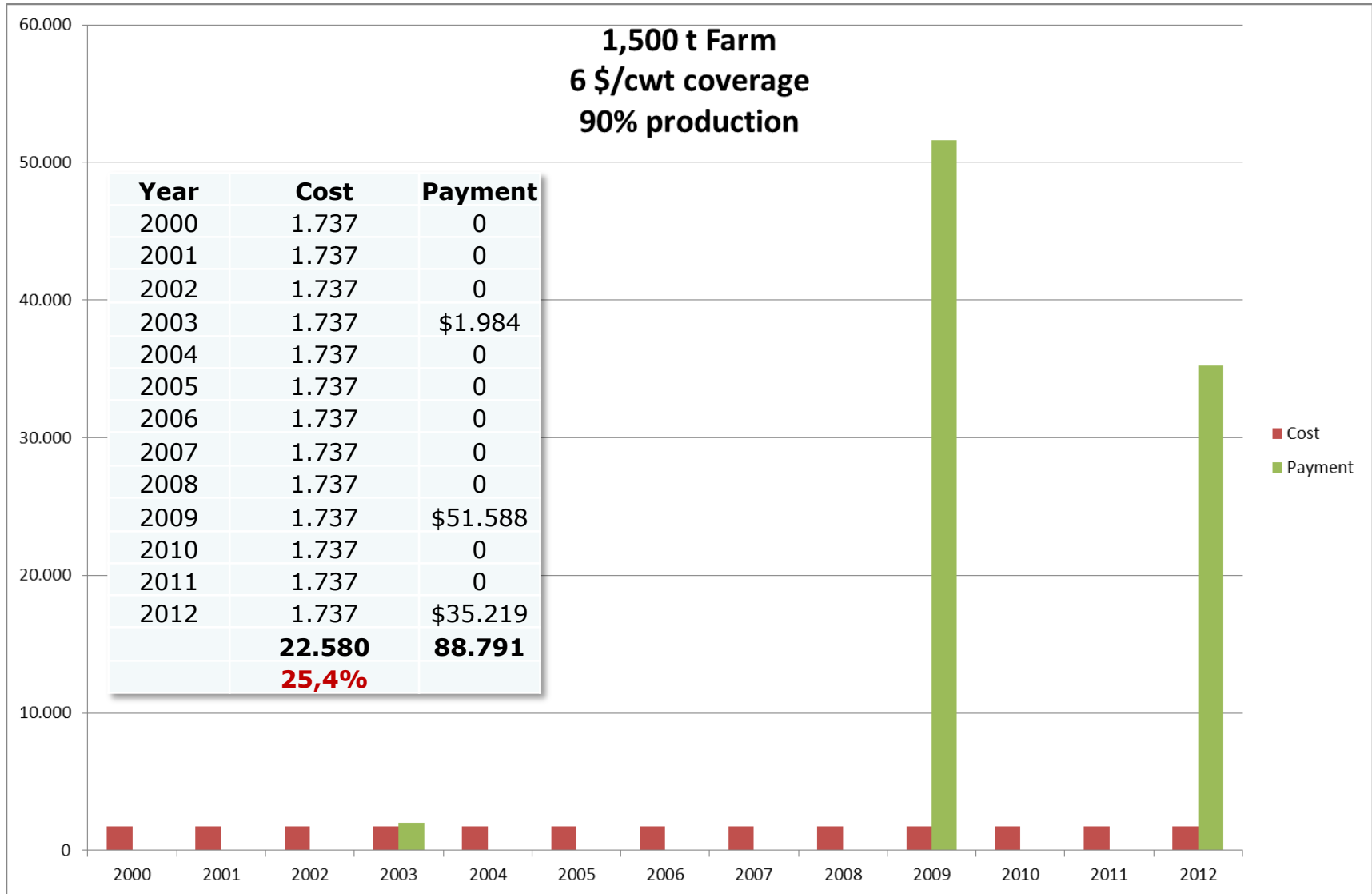


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Margin Protection Program



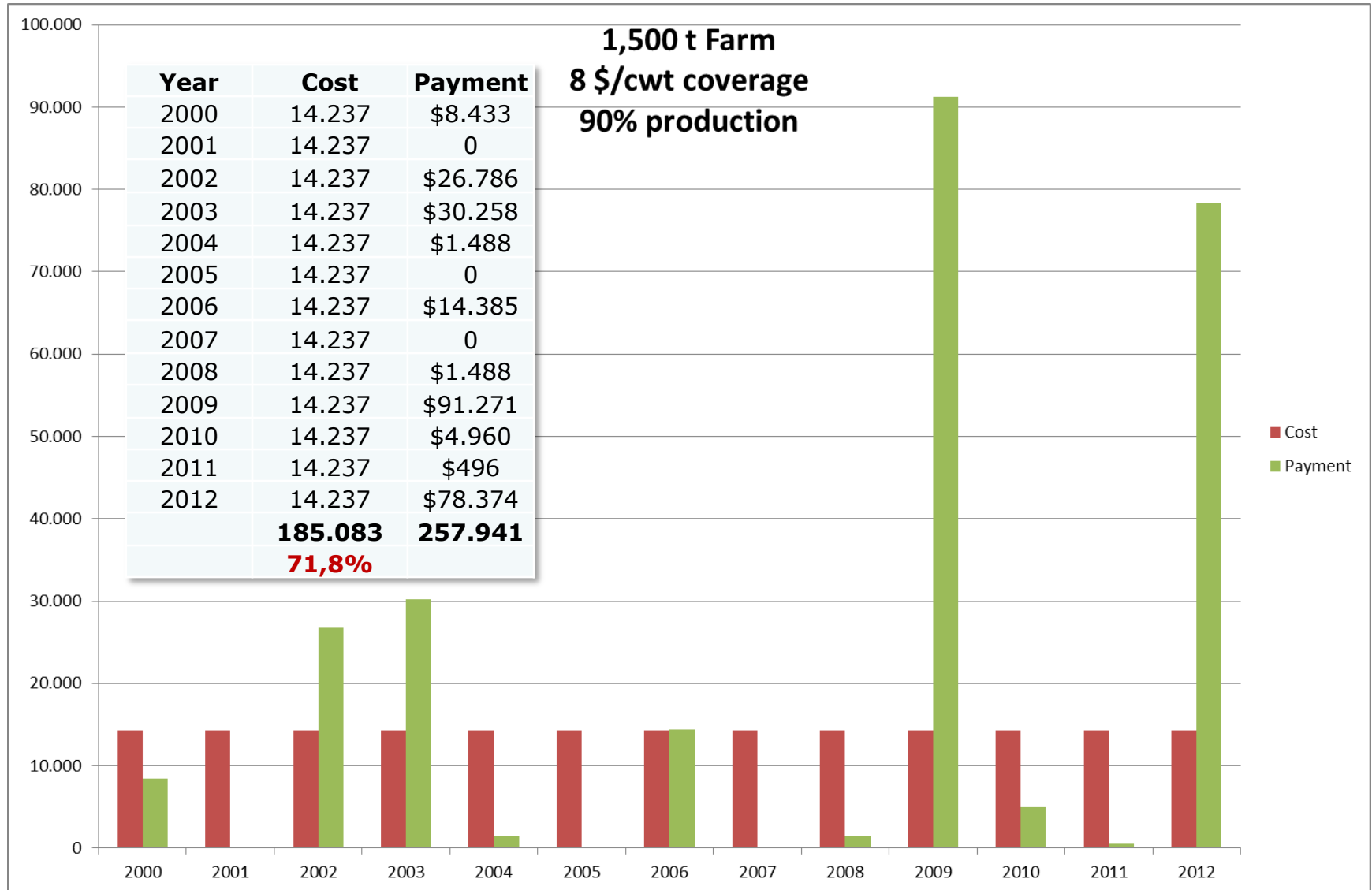
Simulation: cost-benefit for the farm



Margin Protection Program



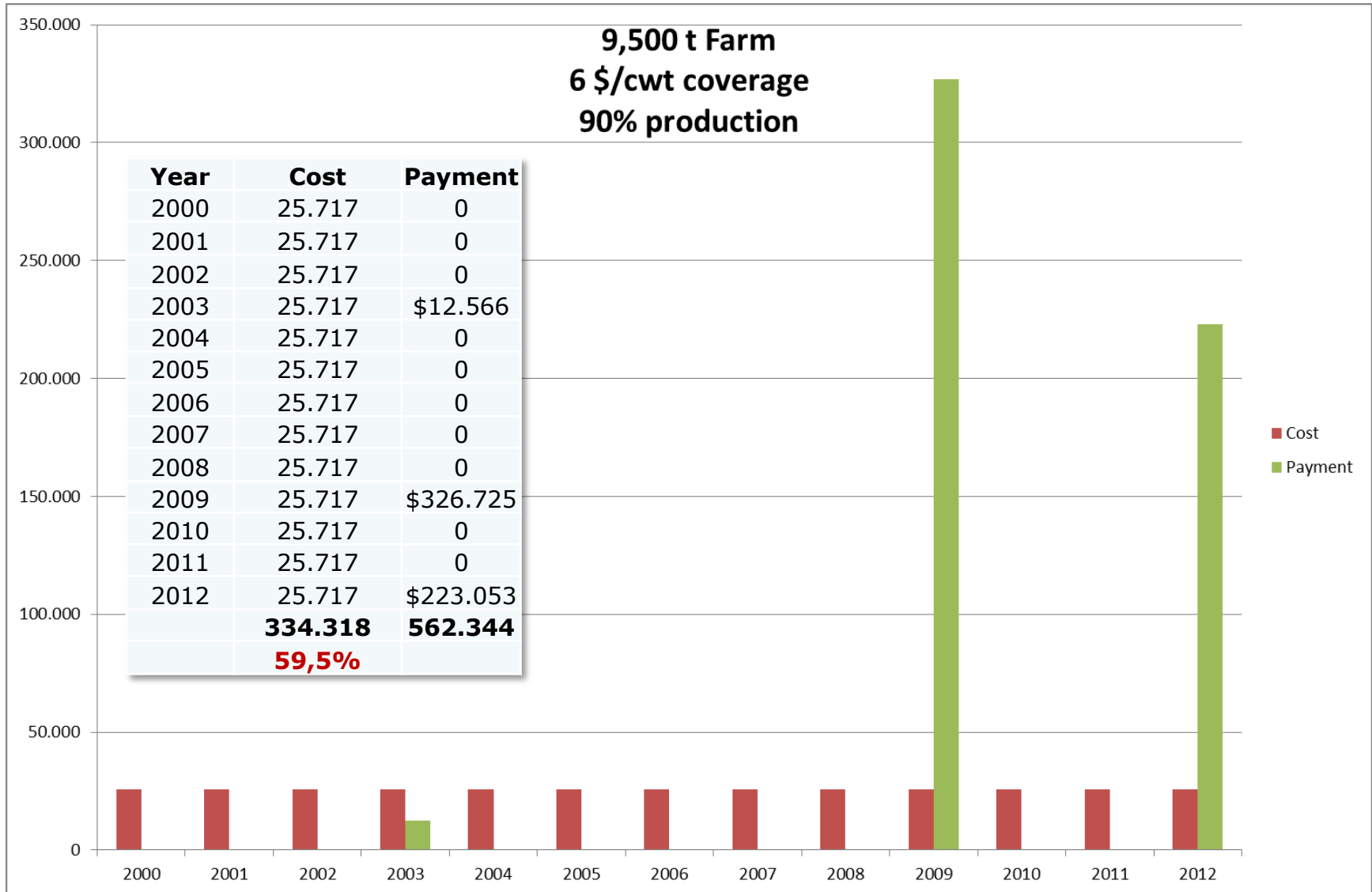
Simulation: cost-benefit for the farm



Margin Protection Program



Simulation: cost-benefit for the farm



Margin Protection Program



Simulation: cost-benefit for the farm

9,500 t Farm
8 \$/cwt coverage
90% production

Year	Cost	Payment
2000	224.594	\$53.407
2001	224.594	0
2002	224.594	\$169.646
2003	224.594	\$191.637
2004	224.594	\$9.425
2005	224.594	0
2006	224.594	\$91.106
2007	224.594	0
2008	224.594	\$9.425
2009	224.594	\$578.052
2010	224.594	\$31.416
2011	224.594	\$3.142
2012	224.594	\$496.371
	2.919.716	1.633.625
	178,7%	

