National Farmers Union

UNITED TO GROW FAMILY AGRICULTURE

2014 Farm Bill Summary

DAIRY PROGRAMS

Among the most contentious items in the consideration of the 2014 Farm Bill, dairy programs have been significantly overhauled. Nearly all of the 2008 Farm Bill dairy policies – the Milk Income Loss Contract (MILC) program, the Dairy Product Price Support Program (DPPSP), and the Dairy Export Incentive Program (DEIP) – have been eliminated.

The largest component of the new farm bill's dairy policy is the **Dairy Margin Protection Program** (DMPP), which provides financial assistance to dairy farmers when the national margin falls below a level. This is an annual elective program, as dairy farmers are not required to participate, and a farmer will select a coverage level between $4 and $8 per hundredweight (cwt.) of milk. A farmer's production history is calculated by averaging annual production levels from 2011 to 2013.

The national margin for dairy production is calculated as the average farm price of milk, minus an average feed ration cost. This can be calculated as:

CORN RATION COST: **(1.0728 x (corn price per bushel)**

+

SOY RATION COST: **(0.00735 x (soybean meal price per ton)**

+

HAY RATION COST: **(0.0137 x (alfalfa hay price per ton)**

=

AVERAGE FEED RATION COST

No premium is charged for the minimum $4 per cwt. margin protection level. Premiums are charged for coverage at higher margins, and the premium schedule differentiates for annual milk production of 4 million or fewer pounds and for production greater than 4 million pounds. Four million pounds of milk roughly equates to the production level of a 190-cow dairy herd. Additionally, all premium levels, except for the $8 margin level, are reduced by 25 percent for 2014 and 2015 so as to provide transition assistance to dairy farmers.

Dairy Margin Protection Program Premiums

Margin Coverage Level	Premium first 4 mil. lbs. of milk	Premium > 4 mil. lbs. of milk
$4.00	$0.000	$0.000
$4.50	$0.010	$0.020
$5.00	$0.025	$0.040
$5.50	$0.040	$0.100
$6.00	$0.055	$0.155
$6.50	$0.090	$0.290
$7.00	$0.217	$0.830
$7.50	$0.300	$1.060
$8.00	$0.475	$1.360

Another new program, the **Dairy Product Donation Program** (DPDP) is designed to address declines in prices and to provide assistance to low-income populations. DPDP kicks in if dairy production margins remain below $4 per cwt. for more than two consecutive months. When DPDP is triggered, the U.S. Department of Agriculture will purchase commodity dairy products, including cheddar cheese and dry milk power.

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DAIRY PROGRAMS—CONTINUED

Purchases under DPDP will continue until one of the following outcomes occurs:

1. Market prices rise enough to bring the margin above $4 per cwt.
2. The U.S. cheddar cheese price exceeds 105 percent of the world market price and the domestic margin is between $3 and $4 per cwt.
3. The U.S. cheddar cheese price exceeds 107 percent of world market price and the domestic margin is below $3 per cwt.
4. Three months have passed, even if margins remain below $4 per cwt.

A stabilization or supply management program, which was part of the Senate-passed draft farm bill but was specifically excluded in the House, is not included in the 2014 Farm Bill.

USDA is required to adhere to standard rulemaking procedures and to determine the market impacts of the new program during the rulemaking process. The 2014 Farm Bill reiterates that federal milk marketing orders (FMMO) have permanent statutory authority and should continue intact. It also provides a mechanism for California dairy farmers to enter into the FMMO.