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2018 Farm Bill Primer: Dairy Programs

The 2018 farm bill (P.L. 115-334) revised the dairy program from the 2014 farm bill (P.L. 113-79, as amended by the Bipartisan Budget Act of 2018 [BBA], P.L. 115-123). The new program in the 2018 farm bill, Dairy Margin Coverage (DMC), which replaces the Margin Protection Program (MPP), is designed to improve the safety net for milk producers. Many dairy producers assert that MPP failed to provide a sufficient safety net during the 2014 farm bill period, when low milk prices did not trigger program payments. DMC is scheduled to be in effect from January 1, 2019, through December 31, 2023.

U.S. dairy producers have faced low milk prices in recent years, leading to financial stress and significant departures from dairying. According to the U.S. Department of Agriculture (USDA), since 2013 the number of licensed dairy herds has declined by 20%, from 46,975 to 37,468 in 2018.

Margin Protection Program (MPP)

The original MPP program under the 2014 farm bill made margin payments to participating dairy producers when a formula-based national milk margin—calculated as the difference between the national all-milk price and a national average feed ration (corn, soymeal, and alfalfa hay) cost—fell below a producer-selected margin that ranged from $4.00 per hundredweight (cwt) to $8.00/cwt for two consecutive months. In addition, dairy producers selected coverage that ranged from 25% to 90% of their milk production history. To participate, producers paid a $100 annual fee and were charged premiums for margin protection above $4.00/cwt. Premiums rose with higher margin protection levels and greater milk production coverage. To aid small milk producers, premiums were lower for the first 4 million pounds of milk production (Tier I) and higher for production above 4 million pounds (Tier II). MPP was subsequently amended by the BBA in 2018 to raise production coverage, lower premiums, and incentivize greater participation. See CRS Report R43465, *Dairy Provisions in the 2014 Farm Bill (P.L. 113-79)*; and CRS In Focus IF10833, *Dairy Provisions in the Bipartisan Budget Act (P.L. 115-123)*.

MPP Under the 2014 Farm Bill and the BBA

In 2014, the U.S. all-milk price averaged $24.00/cwt. By 2018, the average price was just over $16.00/cwt, a 33% decline. However, feed costs also declined, and MPP payments were seldom triggered. From March 2014 through 2017, the national monthly milk margin averaged $9.73/cwt, and payments were triggered four times. During this period, dairy producers paid almost $100 million in administrative fees and premiums to participate, while USDA paid out about $12 million in margin payments.

The BBA amended MPP to make payments on a monthly rather than a two-month average; make margin coverage free at the $4.00, $4.50, and $5.00 margins levels; and reduce premiums for Tier I (raised to 5 million pounds) coverage. As a result, USDA paid participating diary producers almost $254 million in 2018.

DMC Under the 2018 Farm Bill

The DMC program is similar to MPP in that it is to pay participating dairy producers when monthly margins fall below producer-selected levels. The DMC milk price and the feed ration cost margin formula is unchanged from MPP. DMC is potentially more attractive for dairy producers because they will be able to buy higher margin protection at a lower price than under MPP.

DMC provides higher margin choices for the first 5 million pounds (Tier I) of milk production (**Table 1**). If dairy producers opt to participate in DMC, they pay a $100 annual administrative fee and are automatically covered at the $4.00/cwt margin. They have the option to buy additional margin coverage ranging from $4.50/cwt to $9.50/cwt on Tier I production. MPP allowed producers to purchase margins only up to $8.00/cwt. Under DMC, dairy producers who want to buy margin coverage for milk production over 5 million pounds (Tier II) may buy up to the $8.00/cwt level, unchanged from MPP. DMC raised the premium payment rates for Tier II margin coverage above the $5.50/cwt level.

Table 1. DMC Premium Rates Compared to MPP

$ per cwt

	Tier I Up to 5 million lbs.		Tier II Over 5 million lbs.	
Margin	MPP	DMC	MPP	DMC
$4.00	$0	$0	$0	$0
$4.50	$0	$0.0025	$0.020	$0.0025
$5.00	$0	$0.005	$0.040	$0.005
$5.50	$0.009	$0.030	$0.100	$0.100
$6.00	$0.016	$0.050	$0.155	$0.310
$6.50	$0.040	$0.070	$0.290	$0.650
$7.00	$0.063	$0.080	$0.830	$1.107
$7.50	$0.087	$0.090	$1.060	$1.413
$8.00	$0.142	$0.100	$1.360	$1.813
$8.50	NA	$0.105	NA	NA
$9.00	NA	$0.110	NA	NA
$9.50	NA	$0.150	NA	NA

Source: MPP: P.L. 113-79, as amended by the BBA, P.L. 115-23; DMC: P.L. 115-334.

Under DMC, dairy producers may cover a greater percentage of their milk production history: from 5% to 95%, compared with 25% to 90% under MPP. DMC production history continues to be based on the highest annual milk marketings in 2011-2013 but is to be adjusted to reflect growth through 2018. Production history for new dairies may be determined by any available year of production or an adjusted partial year. DMC did not provide for updating production history to recent years.

DMC allows dairy producers to select margin and production coverage levels annually. In addition, under DMC producers will receive a 25% discount on premiums if they select and lock in their margin and production coverage levels for the entire five years of the program.

The 2018 farm bill also addressed producer dissatisfaction with MPP. Dairy producers may apply for partial repayment of the premiums, less any payments received, that they paid under MPP during 2014-2017. If dairy producers opt to apply eligible repayments to future DMC premiums, they receive credit for 75% of the repayment, or they may opt for a direct cash payment of 50% of the eligible repayment.

The 2018 farm bill removed the MPP prohibition on dairy producers participating in both the margin program and the Livestock Gross Margin-Dairy (LGM-D) insurance program, which also insures the margin between feed costs and a designated milk price. In addition, producers who were excluded from participating in MPP in 2018 because their milk production was enrolled in LGM-D may retroactively participate in MPP.

Other Dairy Provisions

The 2018 farm bill reauthorizes the Dairy Forward Pricing Program (DFPP), the Dairy Indemnity Program (DIP), and the Dairy Promotion and Research Program (DPRP, or checkoff) through FY2023. The DFPP allows dairy producers and milk handlers/processors to negotiate contracts for milk delivery, excluding milk for fluid consumption. The DIP makes payments to dairy producers who have to dispose of raw milk because of chemical, radiation, or pesticide contamination. DPRP allows for industry-funded generic promotion of dairy products, research, and nutrition education.

The 2018 farm bill repeals the Dairy Product Donation Program from the 2014 farm bill and establishes a Milk Donation Program designed to simplify and reimburse costs of donations of fluid milk that producers, processors, and cooperatives make to food banks and feeding organizations. The donation program received mandatory funding of $9 million for FY2019 and $5 million annually for FY2020-FY2023.

The farm bill amends the formula for calculating the Class I skim milk price under Federal Milk Marketing Orders. Instead of using either the "higher of" the Class III (cheese) or Class IV (butter/powder) price to calculate the Class I skim milk price, the average of the two prices—plus a $0.74 adjustment—is used.

Lastly, the farm bill requires USDA to conduct studies on whether the national feed ration cost is representative of actual feed costs used in the margin calculation under DMC and on the cost of corn silage versus the feed cost of corn. It directs USDA to report high-quality alfalfa hay prices in the top five milk-producing states.

Timeline

USDA updated its 2018 farm bill implementation schedule on April 12, 2019 (**Table 2**). The agency has completed two final rules and has indicated that other actions will be implemented by May. Signup for DMC will open in June and continue through September 2019.

Table 2. Timeline for Dairy Provision Implementation

March 1, 2019	Dairy Forward Pricing Program final rule issued.
March 11, 2019	Class I Skim Milk Price final rule issued.
March 22, 2019	Dairy producers enrolled in LGM-Dairy in 2018 may retroactively participate in MPP.
March 28, 2019	National Agricultural Statistics Service released prices for high-quality alfalfa hay for top five milk-producing states.
By May 1, 2019	Farm Service Agency will offer MPP premium reimbursements to dairy producers.
By May 1, 2019	The decision tool will be available for dairy producers to evaluate their DMC options.
June 17, 2019	DMC enrollment will begin with coverage retroactive to January 1, 2019.
Summer 2019	Milk Donation Program final rule expected.

Source: USDA, as of April 12, 2019.

Participation in DMC and any associated payments are retroactive to January 1, 2019. Dairy producers who decide to enroll in the DMC in June 2019 will have at least four months of margin data available for their consideration. The announced national average margins for January and February 2019 were $7.99 and $8.22, respectively. Thus, dairy producers who buy a $9.50 margin for their milk production would receive payments of $1.51/cwt for one-twelfth of their covered milk production for January and $1.28/cwt for one-twelfth of production for February. The USDA decision tool currently (as of April 18, 2019) indicates that the milk margin is expected to be below $9.50 through July 2019, resulting in margin payments ranging from $0.21/cwt to $0.81/per cwt through July. During the last five months of 2019, the margin is expected to rise above the maximum DMC margin. This would result in no margin payments.

Using the known January and February 2019 margins, dairy producers are assured that if they buy the $9.50 margin guarantee at $0.15 per cwt, for their first 5 million pounds of milk they will recoup at least their premium payment, plus the $100 administrative fee. For example, a dairy producer who guarantees a $9.50 margin on 95% of 5 million pounds of production would net the producer about $3,820 for the two months ($11,043 margin minus $7,125 premium and $100 fee).

Cost of DMC

According to the Congressional Budget Office's January 2019 baseline, net expenditures on DMC and milk donations are projected to decline from $184 million in 2019 to $103 million in 2023. Net expenditures in 2029 are projected at $98 million. Actual DMC costs will depend on participation rates and the national average margin.

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