Volume 2, Issue 10 October 2014

RightRisk™

RightRisk News

How Much Risk is Right for You?

Dates to Remember

- **November 15, 2014**:
  - Pasture, Rangeland, Forage (PRF) sales closing date.
  - Apiculture
  - Noninsured Crop Disaster Assistance Program (NAP) acreage reporting deadline for forage crops, including grazing
- **December 1, 2013**: NAP application deadline for fall seeded crops and forage

For more information see: http://www.rma.usda.gov.

Dairy Margin Protection Program: A Risk Management Opportunity

The Agricultural Act of 2014 (2014 Farm Bill) establishes the Margin Protection Program for Dairy Producers (MPP-Dairy) effective September 1, 2014. MPP-Dairy represents a new alternative for dairy producers to manage margin risk in their operation. However, it is important to understand that the opportunity to manage margin risk in the dairy industry has been in existence for some time, with a number of other alternatives available. This article focuses on MPP-Dairy with the overarching objective of managing dairy margin risk.

MPP-Dairy is not a mandatory program. It is designed to be an effective safety-net to protect dairy producers from catastrophically low dairy margins. It is up to each individual producer whether or not to participate in the program. MPP-Dairy is managed and administered by the USDA-Farm Service Agency (FSA).

Dairy margin is understood to be the difference between milk price (output) and feed costs (a major input). For MPP-Dairy, this margin is established using USDA-National Agricultural Statistics Service (NASS) reported estimates for a national all milk price received by farmers and national average prices received by farmers for corn grain and alfalfa hay, along with a soybean meal price for Decatur-Central Illinois reported by the Agricultural Marketing Service (AMS) market surveys for feedstuffs. Feed costs in MPP-Dairy are calculated using a fixed ratio of 49 percent corn, 27 percent soybean meal, and 24 percent alfalfa.

The main thing to consider is that LGM-Dairy moves with the markets, while MPP-Dairy is a fixed program with fixed margins and premiums.

Risk Management Tools

A number of other risk management tools have been, and continue to be available, to manage price risk for inputs and output. These tools include futures and options contracts available on commodity exchanges as well as private contract agreements with local suppliers and buyers.

Since 2008, the USDA-Risk Management Agency (RMA) has also offered a USDA-sponsored insurance program called Livestock Gross Margin for Dairy Cattle (LGM-Dairy). This product uses a national Class III milk price and a customizable feed cost, based on corn and soybean meal equivalents, to establish a dairy margin for insurance purposes.

Producers with LGM-Dairy insurance contracts can transition to MPP-Dairy once those contracts expire. However, a decision to participate in MPP-Dairy excludes a producer from using LGM-Dairy insurance until the expiration of the 2014 Farm Bill. The main thing to consider is that LGM-Dairy moves with the markets, while MPP-Dairy is a fixed program with fixed margins and premiums.

continued on pg. 2

MPP-Dairy replaces the Milk Income Loss Contract (MILC) program in existence since 2002. Unlike the MILC program, MPP-Dairy does not use production capacity limits and it allows producers to protect up to 90 percent of their annual production history, regardless of the size of their operation.

MPP-Dairy Participation

The first step to participating in MPP-Dairy is to establish a production history with the local FSA office using Form CCC-781. This form verifies that a dairy operation is eligible to participate, calculates a production history, and identifies basic business ownership information. This is a one-time enrollment that remains in effect for life of the 2014 Farm Bill, unless there is a change in ownership of the operation.

Producers who establish a production history with FSA using Form CCC-781 commit to pay a $100 annual administration fee and accept at least the minimum catastrophic level coverage of $4 per cwt. on 90 percent of their production history. There is no additional premium charged at this coverage level. Producers cannot revoke the decision to participate in MPP-Dairy until the program expires. However, they may adjust their coverage level on an annual basis.

Producers can select a coverage level between 25 and 90 percent in 5-percent increments of their established production history. This is done using Form CCC-782 to register for annual coverage with USDA-FSA. This registration also establishes a margin coverage level for the year between $4 and $8 per cwt. in $0.50 increments. The premiums associated with margin coverage level thresholds between $4.50 to $8.00 are fixed for the life of the 2014 Farm Bill and are available in the FSA MPP-Dairy Factsheet at http://www.fsa.usda.gov/Internet/FSA_File/mpp_dairy.pdf.

Registration for MPP-Dairy for 2014 and 2015 began September 2, 2014 and runs through November 28, 2014. During this period, producers may file Form CCC-781 and register for annual coverage using Form CCC-782. The coverage period for 2014 is September 1 through December 31. Thereafter, coverage is for the calendar year on an annual basis. If desired, producers may defer to start coverage until January 1, 2015 during the initial registration period, thus saving the $100 administration fee for 2014.

Producers who have previously filed Form CCC-781 but do not file Form CCC-782 in any given year will automatically default to the catastrophic coverage level of $4 per cwt. on 90 percent of their established production history for that year, regardless of what MPP-Dairy coverage levels they may have previously registered. Registration periods for 2016-2018 coverage years will take place July 1 through September 30 of the year preceding coverage.

Producers are encouraged to visit the FSA website to learn more about MPP-Dairy by visiting www.fsa.usda.gov and selecting the Dairy Margin Protection Program from the Programs and Services dropdown menu. Among other resources, producers will find a web-based Dairy Margin Protection Program Tool that allows for exploring different coverage levels, dairy margin histories, making projections for 2015, calculating production histories, and accessing Forms CCC-781 and CCC-782 for enrollment. The tool also links to an LGM-Analyzer tool for comparison analysis of margin risk management under the LGM-Dairy insurance program.

RightRisk™

RightRisk helps decision-makers discover innovative and effective risk management solutions.

- Education
- Coaching
- Research

E-mail: information@RightRisk.org
Web: www.RightRisk.org

RightRisk News is brought to you by the RightRisk Team

Contributing authors:

John Hewlett, Ranch/Farm Management Specialist - University of Wyoming, hewlett@uwyo.edu
Jay Parsons, Risk Management Specialist - University of Nebraska-Lincoln, jparsons4@unl.edu
Rod Sharp, Ag and Business Management Specialist - Colorado State University, Rod.Sharp@ColoState.edu
Jeff Tranel, Ag and Business Management Specialist - Colorado State University, Jeffrey.Tranel@ColoState.edu

Editing and Layout: John Hewlett, hewlett@uwyo.edu

Past issues of RightRisk News are available at: http://RightRisk.org > Resources > RightRisk News
To subscribe/unsubscribe, email information@RightRisk.org subject line "Subscribe/Unsubscribe RR News"

How much risk is right for you and your operation?

Colorado State University Extension · University of Wyoming · University of Nebraska Lincoln Extension