Dairy in the 2018 Farm Bill: More than Margin(al) Improvements

National Milk Producers Federation
Farm Foundation Forum
Feb. 5, 2019
Dairy fared best in the farm bill ...

- Falling revenues since 2014
- Problems with the Margin Protection Program
- Policy shifts that roiled markets

... and it needed to
Dairy Revenues Down 28% Since 2014

Crops rebound; dairy, livestock don’t

Dairy Revenues Down 28% Since 2014

Dairy

Crops

Livestock

FARM FOUNDATION | Feb. 5, 2019
Margin Protection Program Flawed

2014: Dairy is the problem commodity

- Feed-cost compromise was good politics, bad policy
- Farmer coverage plummeted
Margins fall ...

[Graph showing MPP/DMC Margin, 2000-2018 with data from USDA Farm Service Agency]
... and farms fail

Wisconsin dairy herds consolidate
Farmers Flee MPP

The diagram shows the financial impact on farmers from 2015 to 2017. The y-axis represents financial losses in billions of dollars, ranging from $0 to $180,000,000,000. The x-axis represents the years 2015, 2016, and 2017. The chart includes three categories: $4, $4.50-$5.50, and $6-$8. The financial losses are depicted as bars for each year, with different colors representing each category. The financial losses are significant, with the peak in 2016 and a slight decrease in 2017.
Trade Winds Blow Against Dairy

U.S. DAIRY EXPORTS, 1995-2017

STAGE 1: 1995-2003
19% OF U.S. MILK SOLIDS PRODUCTION GROWTH WAS EXPORTED

STAGE 2: 2003-2013
65% OF U.S. MILK SOLIDS PRODUCTION GROWTH WAS EXPORTED

STAGE 3: 2013-2017
4.3% OF U.S. MILK SOLIDS PRODUCTION GROWTH WAS EXPORTED
What was the policy reaction?

- Dairy baseline raised, MPP fixed in Bipartisan Budget Act (Feb. 2018)

How does DMC differ?

- More affordable, more comprehensive coverage for small producers
- More meaningful, non-distorting coverage for large producers
In other words ...

**Premium Comparison Table ($/cwt)**

<table>
<thead>
<tr>
<th>Coverage Level</th>
<th>TIER I (FIRST 5M POUNDS)</th>
<th>TIER II (OVER 5M POUNDS)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>DMC Premium</td>
<td>DMC Discounted Premium</td>
</tr>
<tr>
<td>$9.50</td>
<td>$0.150</td>
<td>$0.113</td>
</tr>
<tr>
<td>$9.00</td>
<td>$0.110</td>
<td>$0.083</td>
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<tr>
<td>$8.50</td>
<td>$0.105</td>
<td>$0.079</td>
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<tr>
<td>$8.00</td>
<td>$0.100</td>
<td>$0.075</td>
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<tr>
<td>$7.50</td>
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<td>$0.080</td>
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<tr>
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<tr>
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<td>$0.00188</td>
</tr>
<tr>
<td>$4.00</td>
<td>$0.000</td>
<td>$0.000</td>
</tr>
</tbody>
</table>

*The DMC Discounted Premium would be the premium cost if an operation chooses to lock in the coverage level and coverage percentage for 5 years.*
Other positives

- DMC allowed with other programs (LGM, Dairy-RP)
- Changes in feed-cost calculations
- Better hedging for Class I milk price risk
Thanks!

Alan Bjerga
Senior Vice President, Communications
National Milk Producers Federation
www.nmpf.org
@nmpf
@alanbjerga