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Introducing the USDA Sponsored Margin Protection Program for Dairy Decision Tool

The National Program on Dairy Markets and Policy

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Today the U.S. Department of Agriculture, Farm Service Agency announced the new Margin Protection Program (MPP) for Dairy Producers. The program is effective September 1, 2014 and dairy farmers may enroll beginning September 2, 2014.

To aid dairy operators in the decision process the U.S. Department of Agricultural, Farm Service Agency, the University of Illinois as the lead for the National Coalition for Producer Education (NCPE), and the National Program on Dairy Markets and Policy[1] (DMaP) partnered to develop a web-based decision support tool for MPP and the Livestock Gross Margin-Dairy (LGM-Dairy) insurance program.[2] DMaP has a 30-year history in the development of decision aids and producer outreach initiatives related to the dairy industry and dairy farm risk management. Working with NCPE, DMaP has taken the lead role in developing the MPP and LGM-Dairy decision tool.

As a culmination of this effort, DMaP has introduced the MPP Decision Tool to help dairy farmers and other interested parties make key coverage decisions for the MPP and LGM-Dairy programs.

Access to the MPP Decision Tool, and other educational material, is available at the following websites:

- www.fsa.usda.gov/mpptool
- www.dairymarkets.org/MPP
- http://www.farmdoc.illinois.edu/farmbilltoolbox

A brochure identifying the features of the MPP Decision Tool is available here: brochure.

Easy to Use

The MPP Decision Tool was designed to be easy to use and is optimized to run on all electronic devices including home PC, smart phones, and tablets using Windows, iOS, and Android operating systems. Additionally, only one data point is need from the dairy producer to use the decision tool for the MPP decision. The only data point needed is the dairy operation's production history.

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[1] DMaP represents a consortium of dairy and agricultural economists from land grant institutions across the U.S. and includes John Newton at the University of Illinois as lead for the National Coalition for Producer Education, Andy Novakovic at Cornell University, Chris Wolf at Michigan State University, Marin Bozic at University of Minnesota, Cameron S. Thraen at The Ohio State University, Charles Nicholson at The Pennsylvania State University, and Mark W. Stephenson and Brian Gould both at University of Wisconsin.

[2] The National Program on Dairy Markets and Policy is working with the University of Illinois led consortium National Coalition for Producer Education, which is supported by the U.S. Department of Agriculture, Farm Service Agency, under Agreement No. 58-0210-4-002 N.

Dairy farmers can use the MPP Decision Tool in as few as 4 clicks of the mouse:

> **Click 1:** _What is Your Production History?_ The dairy operation's production history is defined as the maximum calendar year milk production during 2011, 2012, and 2013. This is the only data point needed in order to generate unique MPP Decision Tool results with respect to MPP. The decision tool includes a downloadable form to help determine production history.

> **Click 2:** _Evaluate MPP Margin Forecast._ Each day price forecasts of the dairy production margin are generated using CME Group futures market data. This information is used to forecast the probability of MPP payments for all 126 coverage options for the coverage year.

> **Click 3:** _Select a Coverage Level Threshold and Coverage Level Percentage._ Different coverage options reflect a producer's ability to generate different margin levels (from $4 to $8 per hundredweight) and different coverage percentages (from 25% to 90%).

> **Click 4:** _Print Registration Forms._ Tool users can elect a coverage level and coverage percentage and then print their farm-specific USDA FSA registration forms directly from the MPP Decision Tool. Alternatively, users on a mobile device can generate a PDF file displaying their coverage options selected from within the MPP Decision Tool.

After this 4-step process dairy farm operators can easily view and print for all 126 coverage options: (i) the total premium costs and administrative fee; (ii) forecast MPP payments to be made during the coverage year; and (iii) net MPP benefits (defined as the MPP payment minus the premium and administrative fee).

To highlight the risk management approach that needs to occur during the registration and coverage modification process, dairy farmers using the MPP Decision Tool have the ability to analyze historical U.S. milk and feed prices. This feature is for research purposes only, but provides the opportunity for dairy farmers to go back in time to determine how MPP would have worked as a risk management instrument had it been in place during prior years.

For dairy operators who seek to use their own expectations of milk, feed, and margin price risk the MPP Decision Tool will soon include an _Advanced_ interface that will allow dairy operations to self-select all 48 milk and feed prices to determine how MPP may function to smooth dairy production margins.

With respect to LGM-Dairy, the MPP Decision Tool makes moving between MPP and LGM-Dairy a **one-click solution**. MPP Decision Tool users simply click the "MPP" or "LGM" option to toggle between the two web interfaces. The MPP Decision Tool incorporates the award winning LGM-Dairy Analyzer ©. LGM-Dairy Analyzer © is the sole software system available that allows dairy farm operators and insurance providers to examine forthcoming insurance contract offerings and anticipated premium costs. LGM-Dairy Analyzer © is used extensively by insurance providers and dairy farm operators across the U.S.

Train the Trainer Materials and Events

DMaP, as a partner with NCPE looks forward to serving all of America's dairy producers by providing timely and accurate analysis of risk management options. To complement this effort, DMaP will host five Train-the-Trainer workshops across the U.S beginning September 9, 2014 (see Train the Trainer). Additionally, members of the DMaP team and other educators and trainers will conduct meetings geared to dairy farmers to help them learn to use this exciting new tool (see State Meetings).

As part of the educational effort DMaP will soon release a series of online materials including web videos, PowerPoints, printed materials, and links to other online 2014 Farm Bill decision tools. This material will provide farmers with MPP specific information such as: (i) learning how to calculate their own dairy production margin; (ii) learning how MPP dairy can be integrated into the existing suite of risk management options; and (iii) evaluating unexpected risks in milk and feed markets.

These DMaP educational materials are designed to be flexible to the schedule of the dairy operator or educator. Producers and educators can access the educational materials on their own schedule and needs; additionally, farmers and educators can refer back to these materials as a reference. Links to the supplementary educational material and Train the Trainer Event registration can be found online at: www.dairymarkets.org/MPP.

Cutting Edge Margin Forecasting

The MPP Decision Tool uses innovative and new peer-reviewed price forecasting techniques to provide dairy farmers with timely market information on milk and feed price probabilities to help with the MPP and LGM-Dairy decisions (Bozic, Newton, Thraen, and Gould 2014).

The MPP Decision Tool provides dairy farmers the opportunity to use farm specific milk production variables in conjunction with daily futures prices on milk and feed as part of the consideration for coverage-level choices under MPP and LGM-Dairy. The MPP Decision Tool calculates USDA commodity price estimates and then uses historical correlations among milk and feed prices in a simulation to estimate the financial returns from MPP for farmer-selected coverage options.

With respect to LGM-Dairy, the MPP Decision Tool includes the LGM-Dairy Analyzer © software. LGM-Dairy Analyzer © incorporates the insurance program structure and data obtained from futures markets to provide a farm-level evaluation of the risk management capabilities of the LGM-Dairy program.

Summary

The 2014 Farm Bill provides the most comprehensive reform to the U.S. federal dairy farm safety net seen in decades. In place of milk price and revenue support programs the 2014 Farm Bill creates the Margin Protection Program for Dairy Producers. MPP is a voluntary program which places an emphasis on protecting dairy production margins. MPP protects against severe downturns in the milk price, rising livestock feed prices, or a combination of both.

MPP is a flexible program that allows a dairy operator to self-select coverage options to protect the farm against declines in national average production margins. Different coverage options reflect a producer's ability to protect different margin levels (from $4 to $8 per hundredweight) and different coverage percentages (from 25% to 90%).

To assist in the MPP decision process DMaP has developed a decision tool and companion educational materials in partnership with the U.S. Department of Agriculture Farm Service Agency and the University of Illinois led National Coalition for Producer Education.

References

Bozic, M., J. Newton, C.S. Thraen, and B.W. Gould. 2014. "Tails Curtailed: Accounting for Non-Linear Dependence in Pricing Margin Insurance for Dairy Farmers." *American Journal of Agricultural Economics* 96(4):1117-1135.