Smith, Terry

From: Bothfeld, Diane
Sent: Wednesday, September 27, 2017 2:08 PM
To: Smith, Terry
Subject: FW: Vermont Milk Commission seeks solutions for dairy ...

RECEIVED 9/27/17

From: Bothfeld, Diane
Sent: Wednesday, September 27, 2017 7:18 AM
To: anson.tebbetts@vermont.gov; Booth, Jerry <Jerry.Booth@hphood.com>; ejclifford@comcast.net; Harold John and Bet Howrigan (ehowrigan@yahoo.com) <ehowrigan@yahoo.com>; Jane Clifford (ejcconsultingvt@gmail.com) <ejcconsultingvt@gmail.com>; Linda Berlin <Linda.Berlin@uvm.edu>; Paul Doton (pdoton@gmail.com) <pdoton@gmail.com>; Reg Chaput (cff1991@hotmail.com) <cff1991@hotmail.com>; richlaw@kingcon.com; rlawrence@leg.state.vt.us; Robert Starr <rstarr@leg.state.vt.us>
Subject: FW: Vermont Milk Commission seeks solutions for dairy ...

Hello all,

Please see the attached link to the AP article on Milk Commission.

Diane

From: Tebbetts, Anson
Sent: Tuesday, September 26, 2017 5:05 PM
To: Kosakowski, Alison <Alison.Kosakowski@vermont.gov>; Audet, Trevor <Trevor.Audet@vermont.gov>; Bothfeld, Diane <Diane.Bothfeld@vermont.gov>; Smith, Terry <Terry.Smith@vermont.gov>
Subject: Vermont Milk Commission seeks solutions for dairy ...

Vermont Milk Commission seeks solutions for dairy industry

https://apnews.com/e565cf736fcb44619e53a27d2ecd51a4

Anson Tebbetts
Secretary of Agriculture, Food & Markets
802-324-9850

Vermont Milk Commission seeks solutions for dairy industry

By WILSON RING
Today

https://apn

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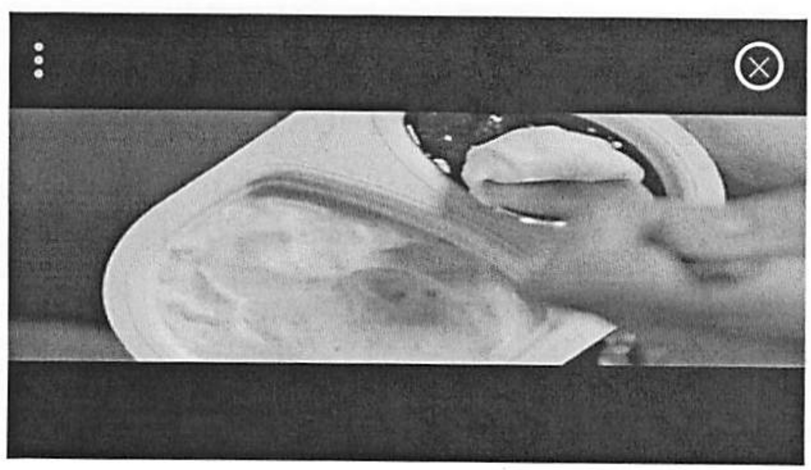
More from **Vermont**

MONTPELIER, Vt. (AP) — The Vermont Milk Commission is working to learn more about the health of the state's dairy industry in hopes that solutions to challenges facing the industry can be addressed by the next federal farm bill, which is due to take effect in a year, Agriculture Secretary Anson Tebbetts said Tuesday.

The commission met in Montpelier on Tuesday for the first time in six years. It plans to meet several more times over the next several weeks so members can gather opinions from dairy farmers, milk handlers and consumers to learn what they would like to see to ensure that farmers have a "fair, predictable pricing system," he said.



Recommendations are to be delivered to the congressional delegation for dairy policy that could be included in the five-year farm bill that will be decided upon by Congress next year, said Tebbetts, who is a dairy farmer.

"We need to get to a better place, that's for sure," he said of the current status of the dairy industry. "It's pretty clear farmers need to be paid a better price for their product."

Dairy remains by far Vermont's largest agricultural sector, accounting for more than 70 percent of Vermont's agricultural sales and contributing $2.2 billion in economic activity each year.

Under Vermont law, the Milk Commission is required to hold hearings to be informed of the status of the state's dairy industry.

Milk prices, now $17.36 per hundred pounds, are up slightly compared to the $15.25 paid a year ago, but they are nowhere near the $23.63 paid in 2014, according to statistics kept by the agency.

"We've had highs and lows. Right now it really hasn't recovered," Tebbetts said of milk prices. "History has shown that it should have recovered by now, but it hasn't.

So I think that's a red flag for a lot of people. Why hasn't it recovered? Why haven't farmers gotten a better price?"

There are currently 786 cow-only dairy farms in Vermont, down from 838 a year ago and 1,051 in 2009, statistics show. There are now about 129,000 cows in the state down from about $135,000 in 2009.

The topics discussed at Tuesday's meeting included the international market for dairy products, the number of milk processing facilities and farm credit issues.

Vermont produces about 63 percent of the milk produced in New England, but dairy farmers in New Hampshire other states are facing the same challenges.

New Hampshire had 115 licensed cow-only dairies in October 2016, down from 123 in January 2016. Earlier this year, Gov. Chris Sununu signed into law a measure providing up to $2 million in emergency funding for the farmers.

"Prices are similarly up a slight amount, and continue to kind of wobble along up and down a bit from month to month," said New Hampshire state Veterinarian Steve Crawford.

VERMONT

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Office of the Secretary
116 State Street
Montpelier, VT 05620
www.VermontAgriculture.com

[phone] *802-828-5667*
[fax] 802-828-2361

Agency of Agriculture Food & Markets

TO:	Paul Doton and Jerry Booth
FROM:	Diane Bothfeld, Director of Administrative Services and Dairy Policy
REASON:	Materials from the first Milk Commission Meeting
DATE:	October 3, 2017
CC:	Anson Tebbetts, Secretary Agency of Agriculture, Food and Markets

Diane Bothfeld

Enclosed please find the materials provided by speakers at the first milk commission meeting on September 26, 2017.

The next Milk Commission Meeting will be held in Williston, VT on October 13, 2017 beginning at 9:30 a.m. More information will be provided in the near future.

Future dates for the Milk Commission include:
November 7 – Randolph area
December 1 – Montp0elier area

Look forward to seeing you both soon.

USDA Data for Milk Margin Protection Program												
Vermont												
Farms Enrolled and at What Margin level												
											VT	
Margin level	$4	$4.50	$5	$5.50	$6	$6.50	$7	$7.50	$8	Total Enrolled	Ave. #/year	% enrolled
2015	207	1	15	7	83	203	18	54	0	588	853	68.93%
2016	527	1	0	4	18	15	0	1	0	566	838	67.54%
2017	456	0	0	1	5	3	0	0	0	465	802	57.98%

Vermont Production History of Dairy Farms Enrolled											
Margin Level	$4	$4.50	$5	$5.50	$6	$6.50	$7	$7.50	$8	Total Enrolled	total VT lbs.
2015	783,848,048	898,216	46,056,589	13,835,937	302,600,580	617,572,908	23,527,925	149,100,469	0	1,937,440,672	2,666,000,000
2016	1,821,254,725	1,256,856	0	12,730,978	19,273,629	17,984,147	0	1,109,219	0	1,873,609,554	2,724,000,000
2017	1,762,177,966	0	0	762,610	5,368,660	4,096,170	0	0	0	1,772,405,406	2,757,000,000 E

Production History Eligible for Payment (Production History Multiplied by Coverage Level Selected: 25% to 90%) for Margin Protection Program Dairy										
Margin Level	$4	$4.50	$5	$5.50	$6	$6.50	$7	$7.50	$8	Total Covered
2015	705,463,243	808,394	41,450,930	12,452,343	260,617,508	521,508,598	19,068,028	102,150,003	0	1,663,519,049
2016	1,639,129,274	1,131,170	0	11,457,881	17,346,268	15,079,148	0	998,297	0	1,685,142,038
2017	1,585,960,192	0	0	686,349	4,831,794	3,291,059	0	0	0	1,594,769,394

ORGANIC DAIRY MARKET NEWS

Information gathered September 11 - 22, 2017

ORGANIC DAIRY FLUID OVERVIEW

Milk Product Sales. AMS reports total organic milk products sales for July 2017 were 199 million pounds, up 1.7 percent from the previous July and up 0.9 percent, January-July compared with the same period of 2016.

Total organic whole milk products sales for July 2017, 79 million pounds, were up 8.4 percent compared with July last year and up 7.8 percent, January-July compared with the same period of 2016.

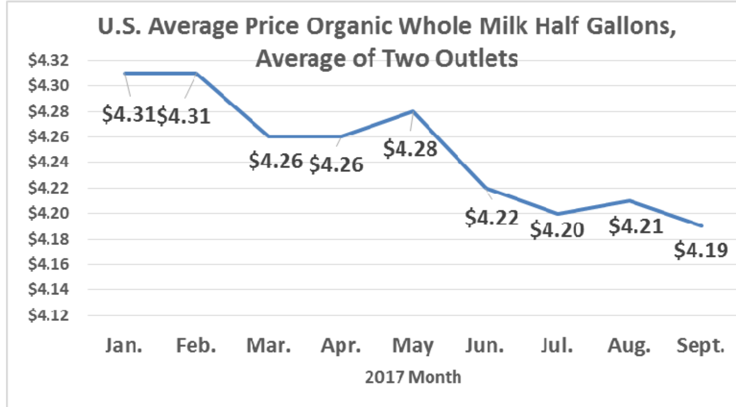
ESTIMATED TOTAL U.S. SALES OF FLUID MILK PRODUCTS, JULY 2017, WITH COMPARISONS[1/]

Product Name	Sales JULY (Mil. Lbs.)	Sales Y-T-D (Mil. Lbs.)	Change[2/] PrevYr. (Percent)	Change[2/] Y-T-D (Percent)
ORGANIC PRODUCTION PRACTICE				
Whole Milk	79	577	8.4	7.8
Reduced Fat Milk (2%)	61	459	1.8	0.8
Low Fat Milk (1%)	28	230	-15.8	-9.9
Fat-Free Milk (Skim)	21	161	-10.5	-13.7
Flavored Fat-Reduced Milk	10	69	62.6	39.4
Other Fluid Milk Products	0	1	4.0	-2.4
Total Fat-Reduced Milk 3/	120	918	-2.3	-2.9
Tot. Organic Milk Products	199	1,496	1.7	0.9

*Total Fluid Milk Products Adjusted for Calendar Composition will not be published until release of "*An Overview of Calendar Composition of Fluid Milk Sales*." 1/ These figures are representative of the consumption of fluid milk products in Federal milk order marketing areas and California, which account for approximately 92 percent of total fluid milk sales in the United States. An estimate of total U.S. fluid milk sales is derived by interpolating the remaining 8 percent of sales from the Federal milk order and California data. 2/ Percent changes, as well as sales volumes, unless otherwise noted, are shown on an unadjusted basis; 3/ Organic fat-reduced milk categories are total of reduced fat, low-fat, skim, and flavored fat reduced milk.

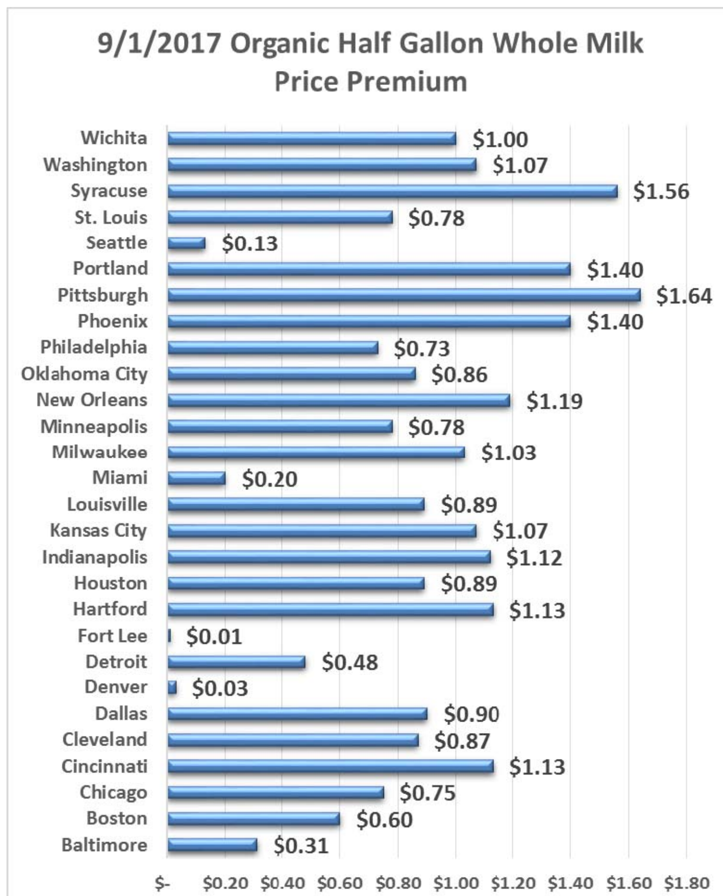
Monthly Retail Organic Milk Price Comparison for Twenty Nine U.S. Cities. In a continuing data series, the September 2017 in store survey of supermarkets in twenty nine U.S. cities as to pricing of organic whole milk in half gallon containers reveals that prices range from $3.19 in Cincinnati, to $5.39 in Pittsburgh. The September average of pricing for the twenty nine cities, $4.19, has generally trended lower throughout 2017 and is now at the lowest point of 2017. If you are reading this in text format, images will not appear. To view all images please go to the PDF version of this report, https://www.ams.usda.gov/mnreports/dybdairyorganic.pdf.

Image: Dairy Market News. Data Source: Federal Milk Market Order Administrators.



City by city, the greatest September organic price premium (the organic milk price minus the conventional milk price) is in Pittsburg, Pennsylvania, $1.64. The lowest, Fort Lee, New Jersey, $0.01. Atlanta stands alone as the only city among the twenty nine in which organic whole milk half gallons had a lower price than conventional, $0.04 lower. The following table provides more detail as to cities with an organic milk price premium.

Image: Dairy Market News. Data Source: Federal Milk Market Order Administrators.



CONTINUED ON PAGE –8A-

ORGANIC DAIRY MARKET NEWS

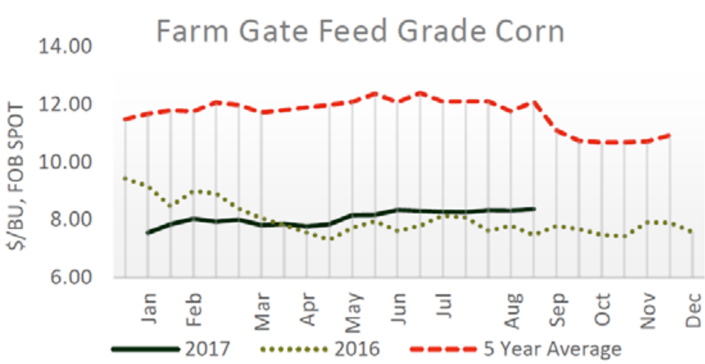
Information gathered September 11 - 22, 2017

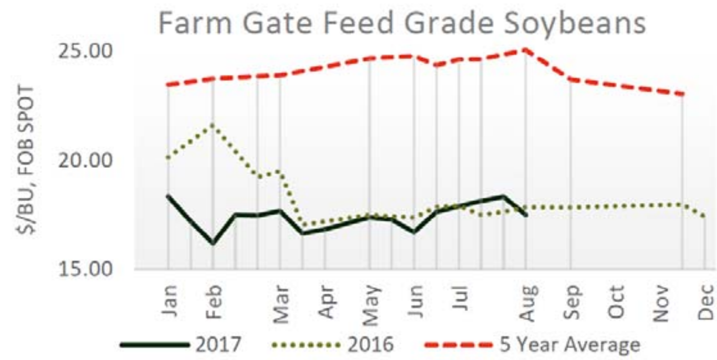
CONTINUED FROM PAGE –8-

Grass-fed Organic Milk Certification. Last week, a New York based grass-fed organic dairy processor teamed with a large organic dairy cooperative to announce efforts to initiate a grass fed organic milk certification program utilizing third party certification. A motivating factor is said to be to avoid a situation such as with the term “natural”, where there is no standard of identity but the term is widely used in marketing. It is anticipated that there will be a specific requirement for access to pasture and dry matter intake, factors also addressed in USDA organic certification. Details are still being finalized and will be under discussion. However, implementation of third party inspections for grass-fed organic dairy producers may begin as soon as January 2018. The New York organic processor has now expanded beyond organic grass-fed cheese and yogurt, also becoming a nationally distributed label for grass-fed organic fluid milk. So far, all milk distributed nationally is produced and processed in New York State.

Organic Dairy Product Expansion. A New England based mainstay in the organic yogurt business, recently under new ownership by an international dairy company, plans to introduce organic string cheese to the market as soon as January. Reportedly plans are to manufacture the cheese in a different location than the existing facility which manufactures organic yogurt. However, the location of the organic cheese plant has not been announced. This new organic cheese product is drawing interest in terms of where it will be manufactured and how that may relate to sourcing organic milk in this era of organic milk surpluses and lower pay prices for existing organic dairy production. Obviously a big question is what magnitude of volumes of organic milk may be needed for the new organic cheese production. Of course, the secondary question is whether introducing organic string cheese presages introducing other types of organic cheese.

ORGANIC GRAIN AND FEEDSTUFF MARKETS: Organic feed grade corn demand is good, trading 5 cents higher with steady bids. Spot trading and forward contract activity is light. Organic feed grade soybean demand and activity is light. Cash bids are steady and contracting is light. Organic soybean meal and soybean oil trading is too limited to trend, but steady undertones are noted. Organic food and feed wheat spot market trading is too limited to trend with cash bids mostly steady.





Source: Graphs by Livestock, Poultry and Grain Market News

Additional livestock and grain market news information is available at: www.ams.usda.gov/LSMarketNews

ORGANIC DAIRY RETAIL OVERVIEW

DIRECT TO CONSUMER ORGANIC DAIRY PRODUCTS PRICES

The following tables identify U.S. price range results from a Dairy Market News national survey of publicly available prices of organic dairy products, available from farmstead outlets and online. There may be prices offered outside of the price range which were not identified by the survey. These are cows’ milk products.

Information is for the period September 11 – 22, 2017.

ORGANIC CHEESE

Commodity	Variety	Pack Size	Organic Price Range $
Organic Cheese	Cheddar - Mild-Medium	8 oz.	3.75 - 6.50
Organic Cheese	Cheddar - Sharp	8 oz.	3.75 - 6.50
Organic Cheese	Colby	8 oz.	3.75 - 5.75
Organic Cheese	Monterey Jack	8 oz.	3.75 - 6.00
Organic Cheese	Mozzarella	8 oz.	5.50 - 6.00
Organic Cheese	Pepper Jack	8 oz.	3.75 - 6.15

ORGANIC BUTTER

Commodity	Pack Size	Organic Price Range $
Organic Butter	8 oz.	5.00 - 9.00
Organic Butter	1 lb.	6.85 - 12.45

ORGANIC DAIRY RETAIL OVERVIEW

Organic Dairy Overview. This week, with the arrival of fall, organic milk accounts for 60 percent of organic dairy retail ad numbers by commodity.

Organic yogurt and butter followed, in turn, with 23 percent and 7 percent of overall organic dairy advertisements for this survey period.

CONTINUED ON PAGE –8B-

ORGANIC DAIRY MARKET NEWS

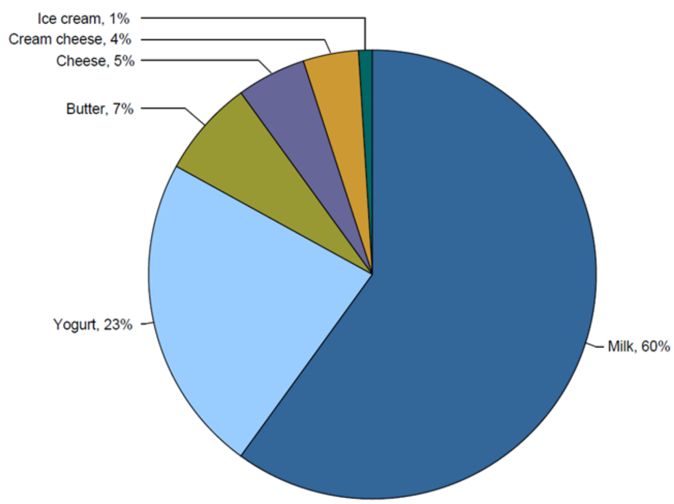
Information gathered September 11 - 22, 2017

CONTINUED FROM PAGE –8A-

The Southeast led the way, with strong percentage changes in organic advertisement numbers followed by the Northwest, 293 percent and 274 percent, respectively. The number of advertisements of organic milk vary from region to region with the largest volumes of ads noted in the Northeast and Southwest. The lowest number of ads occurred in the Southwest and Midwest. Hawaii typically posts the highest average price for organic milk and was trailed by South Central, $5.83 and $5.48, respectively.

The pie chart below displays percentages of all organic commodities detailed in the survey. To view all images please go to the PDF version of this report at, https://www.ams.usda.gov/mnreports/dybdairyorganic.pdf

Percentage of Total Organic Ads by Commodity



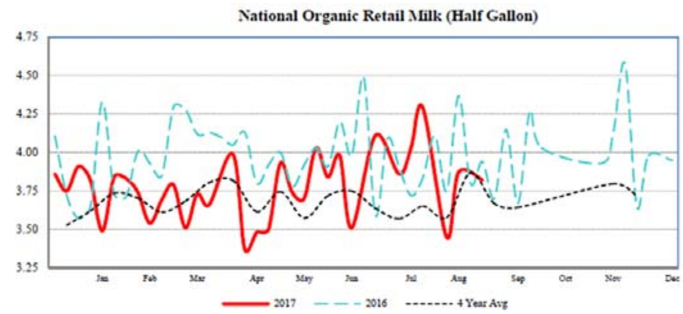
Data source: USDA Dairy Market News

Advertising information presented is compiled from nearly 23,000 surveyed newspaper supermarket ads. Prices are valid from September 22-28 2017, identifying weekly specials and containing organic dairy content. Retail survey ads reflect "advertised specials" and not the range of non-advertised supermarket cooler prices.

Selected organic dairy product pricing information from the current weekly survey is presented in the following table:

NATIONAL RETAIL ORGANIC DAIRY WEIGHTED AVERAGE ADVERTISED PRICE
(Dollars)

Commodity	This Week	Last Week	Last Year
Butter	4.51	4.52	5.15
Milk			
Half Gal.	3.70	3.82	4.15
Gal.	5.73	5.99	6.19
8 oz.	.82	.87	1.05
Yogurt			
4-6 oz. Greek	1.11	1.25	1.15
32 oz. Greek	…	3.69	…
4-6 oz. Yogurt	1.19	1.00	…
32 oz. Yogurt	3.99	2.62	2.82



Data source: USDA/AMS/Weekly National Organic Summary

Complete results of the "National Retail Report-Dairy" and "Weekly National Organic Summary" is accessible using the following links:

https://www.ams.usda.gov/mnreports/dybretail.pdf
https://www.ams.usda.gov/mnreports/lswnos.pdf

SCHOOL LUNCH AND BREAKFAST

National School Lunch Program

This program provides reimbursement for lunches served to students enrolled in twelfth grade and under in public and private, non-profit schools. Reimbursement is provided at three levels: free, reduced price, and full price (or paid). Families may submit applications to receive free or reduced-price meal benefits. In Vermont, public schools are required to participate in the National School Lunch Program and the School Breakfast Program unless the school board holds a public discussion and subsequently votes to exempt the district from the requirement.

Because the program is a federal entitlement program, meaning that the government guarantees that all program meals properly claimed for reimbursement each month will be reimbursed. There are regulations to assure that meals claimed for reimbursement are truly eligible for payment. The program is administered by the US Department of Agriculture (USDA). Participants in the National School Lunch Program also receive a State Match payment once a year and receive federally-provided commodity foods. In general, these commodities represent 10-12% of foods used in school meals programs. The remainders are purchased through regular supply channels.

School Breakfast Program

This program provides reimbursement for breakfasts served to students in the twelfth grade or under in public and private, non-profit schools. Reimbursement is provided at three levels: free, reduced price, and full price (or paid). Families may submit applications to receive free or reduced-price meal benefits. Families do not have to submit separate applications for free school lunch and breakfast.

In addition to federal reimbursements, schools that participate in the School Breakfast Program receive a State Match payment once a year.

Program Application

Please contact the Agency of Education in order to receive application materials and information.

AFTER SCHOOL SNACKS AND MEALS

The After School Snack Program provides reimbursement for snacks served to children who are participating in after school care programs or attending after school care at day care centers. The program is funded by the U.S. Department of Agriculture and is administered by the Vermont Agency of Education, Child Nutrition Programs. The After School Snack Program is designed to give children a nutritional boost and draw them into supervised after school activities that are safe, fun and educational. Two federal child nutrition programs provide reimbursement to feed children after school:

National School Lunch Program (NSLP) provides reimbursement to school-sponsored after school programs for snacks. A school-sponsored program can be operated by a school (on school grounds or elsewhere). It can also be operated by another organization, such as a Police Athletic League, on or off school grounds, if the school sponsors the program. School-sponsored programs usually participate through NSLP unless they want to serve suppers.

Child and Adult Care Food Program (CACFP) provides reimbursement for snacks and, in some cases meals, to after school care programs that are operated by schools, local government agencies, private non-profit organizations, and licensed non-profit and some for-profit child care centers. To participate in the At-Risk CACFP After School Snack Program, the program must be located in a school or geographic area with 50% or more of the enrolled students eligible for free or reduced price school meals. Programs not located in an eligible area are eligible to participate through the traditional CACFP.

FARM JOURNALS - MILK
AUGUST 22, 2017

When Supply Outpaces Demand the Dairy Landscape Changes

MARKETS
| BY: ANNA-LISA LACA

For decades, producers have grown their herds as an avenue to make more money. However, the days when more cows equaled more profit might be in the rearview mirror. Around the country producers are struggling to make ends meet with the milk price. At the same time, processing facilities are full, and dairy product manufacturers are swimming in excess supply. This paradigm of overproducing demand and expecting to stay profitable has to come crashing down at some point. We might be seeing the beginning of that.

This week, some producers in the Northeast were caught off guard when learning that the National Farmers Organization (NFO), a national cooperative with many members in the Northeast, and Dairy Farmers of America's (DFA) Dairy Marketing Service (DMS) were parting ways. What's ironic though, is that NFO was notified of the contract termination on November 21, 2016 and shared that information with their members. DFA gave NFO one year to figure out how and where to market patron's milk and on December 1 of this year, NFO will be on their own.

According to Brad Keating of DFA, the landscape in the Northeast is changing.

"We've lost some markets that have closed their plant or sold it to other cooperatives," he says. "As we lose the demand, we have noticed with some cooperatives that we don't have the availability to market their milk based on the fact that we don't have the sales to market them anymore."

While NFO seems to be getting the most attention, it isn't the only cooperative no longer part of DMS. Keating says other small cooperatives were notified that contracts would be terminated and are seeking other marketing opportunities.

"We're trying to help people transition into new milk marketing realities," he says.

Despite the rumor, DFA is not dissolving DMS. Keating says NFO and DFA parting ways is simply a function of supply exceeding demand. I anticipate we'll see more of that across every state and in every cooperative in the months to come.

WHAT BENEFITS DOES VERMONT WIC OFFER?

WIC provides healthy food, and a whole lot more…including nutrition education, breastfeeding support, and referrals to health care and other community programs.

WIC Breastfeeding Support

Learn what to expect with breastfeeding, build your confidence, and know where to find support.

You can trust WIC to be your family's nutrition expert during critical periods of growth and development, including pregnancy, infancy and early childhood.

The full range of WIC's nutrition resources and benefits are available beginning when you are pregnant and continuing until your child's 5th birthday. When you choose WIC for your family, you'll get the support you need to give your child the best possible start in life. And, kids who stick with WIC until age 5 grow healthy, happy and smart.

Healthy WIC Foods

WIC's mission is to safeguard your growing family's health. When WIC first began, the nutritional issues facing many Americans were different from what they are now. In the typical American diet today, we need less fat and more fiber, less refined grains and more whole grains, more fruits and vegetables and more variety in what we eat.

WIC foods supplement the other foods you buy, and provide key nutrients to help you and your children grow at each stage of development. Each individual enrolled in WIC receives a monthly food benefit based on their participant category and nutritional needs. The foods you can purchase with your WIC card change depending on whether you are pregnant or breastfeeding, and the age of your child.

WIC foods have always supplied important nutrients like calcium, iron and protein. They still do, and WIC is changing with the times. The foods you can buy each month as part of your WIC benefits are approved based on the latest nutrition science – specifically focusing on the health needs of moms and young children. Today, WIC foods include more whole grains, fruits and vegetables, and lower-fat dairy and protein choices. Our goal is to help families meet the Dietary Guidelines for Americans(link is external), the Healthy People 2020 Objectives(link is external), and follow the American Academy of Pediatrics(link is external) (AAP) recommendations for infant nutrition. WIC believes in the power of healthy foods to grow a healthy body.

The allowable brands and food items approved by Vermont WIC:

- Provide specific nutrients to support health during critical times of growth
- Include a wide variety of choices that are easy to purchase, store, prepare and eat
- Are widely acceptable and take differing family food preferences into account
- See the complete list of foods WIC Food Guide

WIC FOOD CATEGORIES

- **Milk** - 1% or skim for everyone over age 2, whole milk for children 12-24 months
- **Whole Grains –** Whole wheat bread, brown rice, whole wheat pasta, whole wheat or corn tortillas
- **Yogurt –** Low-fat or non-fat yogurt for women and children over age 2, Whole milk yogurt for children 12-24 months
- **Cheese –** Regular and low-fat varieties
- **Eggs –** Medium or large
- **Fruits and Vegetables –** Fresh, frozen or canned
- **100% Fruit Juice –** Refrigerated, frozen concentrate or shelf stable bottles
- **Breakfast Cereal –** Whole grain and regular, low in sugar, high in iron, hot and cold varieties
- **Legumes** - Peanut butter, canned or dry beans
- **Tofu** and **Soy Milk Beverage –** Calcium set tofu, fortified soy milk beverage
- **Infant Formula** for infants who are not breastfeeding, or partially breastfeeding
- **Baby Food Fruits and Vegetables** for your 6-12 month old baby
- **Baby Food Meats** for fully breastfeeding infants 6-12 months' old

September 1, 2016

FARM BUREAU®
2018 Farm Bill

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What is Dairy Margin Protection Program and How Has it Worked?

BACKGROUND

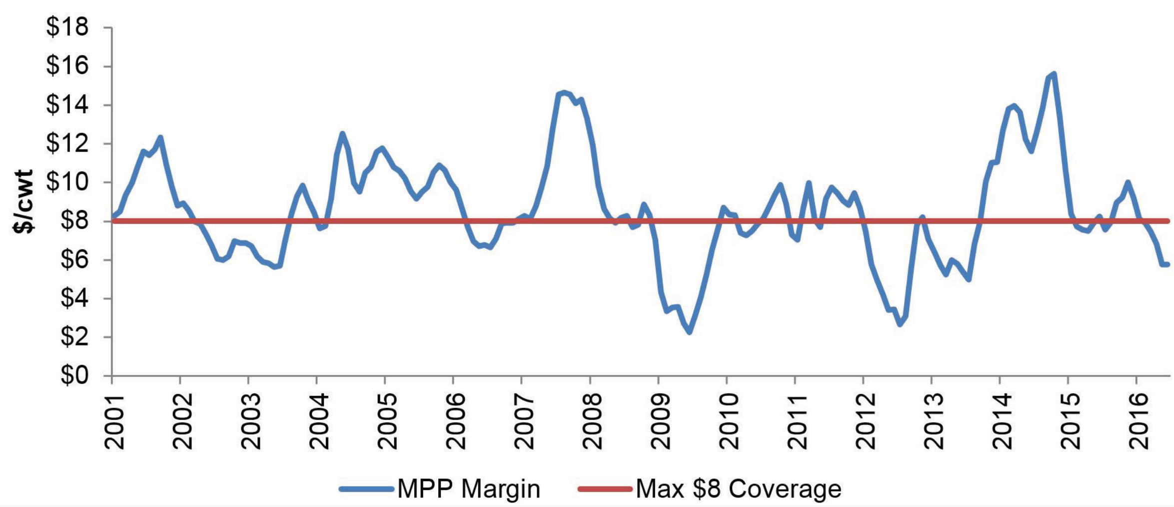
The Dairy Margin Protection Program (MPP) is a voluntary program that makes payments when the national average income-over-feed-cost (IOFC) margin index falls below a farmer-selected coverage level. Different coverage options reflect a dairy farmer's ability to protect different margin levels. Dairy producers pay premiums for coverage and must take an active role in selecting their coverage options each year.

MPP is based on an IOFC margin defined as the difference between the national average all-milk price and the formula-derived estimate of total herd feed costs. The MPP margin is calculated as:

Milk Price – [1.0728 x (corn price/bu) + 0.00735 x (soybean meal price/ton) + 0.0137 x (alfalfa hay price/ton)]

(The milk price is the National Agricultural Statistics Service (NASS) announced U.S. all-milk price per hundredweight (cwt), the corn price is the NASS announced corn price per bushel, the soybean meal price is the USDA Agricultural Marketing Service announced Central Illinois high protein soybean meal price per ton, and the alfalfa hay price is the NASS announced alfalfa hay price per ton.)

MPP Margin (Milk Price Minus Feed Costs), 2001 to May 2016



Payments are made when the MPP margin falls below a farmer-selected coverage level that ranges from $4.00 to $8.00 per hundredweight (cwt) in 50 cent increments. To determine the payment, MPP margins are averaged for consecutive two-month intervals such that up to six payments are possible each calendar year. Consecutive two-month periods are defined as January-February, March-April …, November-December. In order to participate, farm operations must pay a $100 annual administrative fee. This fee provides dairy producers with catastrophic coverage of $4.00 per cwt. Additional margin protection on levels above $4.00 per cwt can be selected by participating dairy farmers at supplementary costs. Premium rates are fixed for the life of the 2014 Farm Bill, but are structured at a lower tier (Tier 1) for the first four million pounds of covered production. A 25 percent premium discount was mandated for 2014 and 2015 for Tier 1 rates for all coverage levels except the $8.00 level.

MPP-Dairy Premiums and Administrative Fees		
MPP-Dairy Coverage Level	**Actual Tier 1 Premium (2016-18)**	**Actual Tier 2 Premium**
Administrative Fee in Dollars	$100	
$/hundredweight		
$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

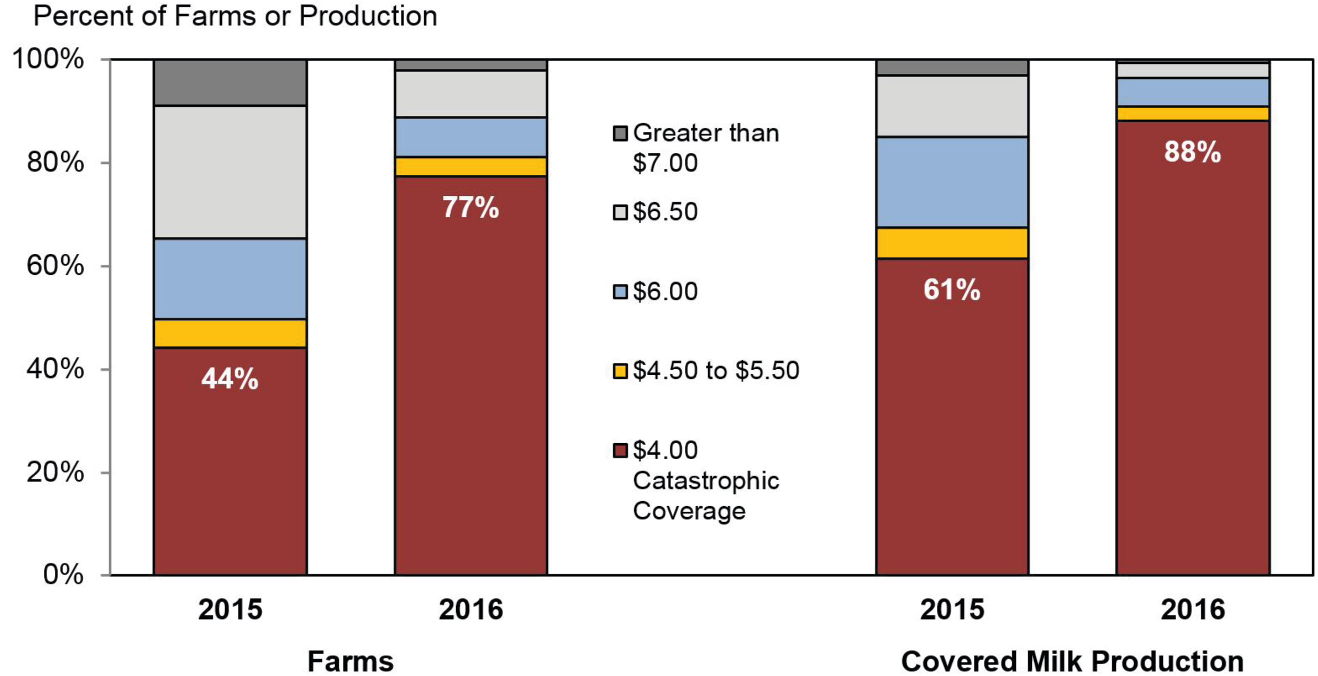
Once enrolled in MPP, participating dairy operations may not opt-out of the program. However, during the open enrollment period each year, dairy operations may change their level of MPP protection and how much milk is covered for the following calendar year. The open enrollment period occurs each year from July 1 to September 30. Dairy farmers may purchase coverage on 25 to 90 percent of their milk production history in five percent increments. The dairy farm's production history is defined as the highest level of annual milk production during the 2011, 2012, or 2013 calendar years. In subsequent years, USDA will update a farm's production history to reflect the increase in national average milk production.

Program Participation:

In 2015 (the first full year of enrollment), about 24,000 dairy operations participated in the program. These farms represented about 50 percent of the licensed dairy operations and 80 percent of the U.S. total milk supply. Of the operations participating in MPP, 55 percent of farmers opted to purchase supplemental coverage above $4.00 per hundredweight. About $73 million was collected in MPP premiums and administrative fees. During 2015, the annual average MPP margin was $8.35 per hundredweight and ranged from a low of $7.50 in March and April 2015 to a high of $9.55 per hundredweight in November and December 2015. As a result, only those dairy operations enrolled at the $8.00 supplemental coverage option received a program payment. A $700,000 indemnity was paid to the 264 dairy farmers who insured at the $8.00 coverage level.

The 2016 participation in MPP was similar to 2015 in terms of the volume of milk enrolled in the program and the number of participating farms. However, fewer dairy farmers elected to purchase buy-up MPP coverage and instead opted to participate at the minimum catastrophic $4.00 level. About $23 million in premium and administrative fees was collected from dairy farmers. As of July 2016, the MPP margin fell to a low of $5.75 per hundredweight. In August 2016, USDA announced an MPP payment of $11.2 million to farmers participating at the $6.00 level and above.

MPP Participation by Coverage Level for 2015 and the First Half of 2016



Actual and estimates of premiums paid into MPP and program payments by coverage level (based on July 20, 2016 USDA projected MPP margins)						
Coverage Level	Number of Farms in 2015	Total MPP Premiums and Admin Fees in 2015	MPP Payments Made to Farmers in 2015	Number of Farms in 2016	Total MPP Premiums and Admin Fees in 2016	Estimate of MPP Payments Made to Farmers in 2016
$8.00	264	$3,369,992	$727,831	138	$1,007,442	$1,033,267
$7.50	1,430	$7,744,556	$0	225	$1,175,433	$1,280,959
$7.00	501	$1,468,205	$0	158	$546,430	$474,799
$6.50	6,397	$24,008,345	$0	2,184	$6,200,826	$5,475,358
$6.00	3,850	$31,284,784	$0	1,877	$10,194,428	$3,210,940
$5.50	506	$1,726,101	$0	342	$543,918	0
$5.00	743	$2,101,739	$0	463	$1,194,619	0
$4.50	136	$71,693	$0	405	$43,135	0
$4.00	10,939	$1,093,900	$0	18,801	$1,880,100	0
TOTAL	25,162	$72,869,315	$727,831	24,292	$22,786,331	$11,475,323

USDA Modifications to MPP:

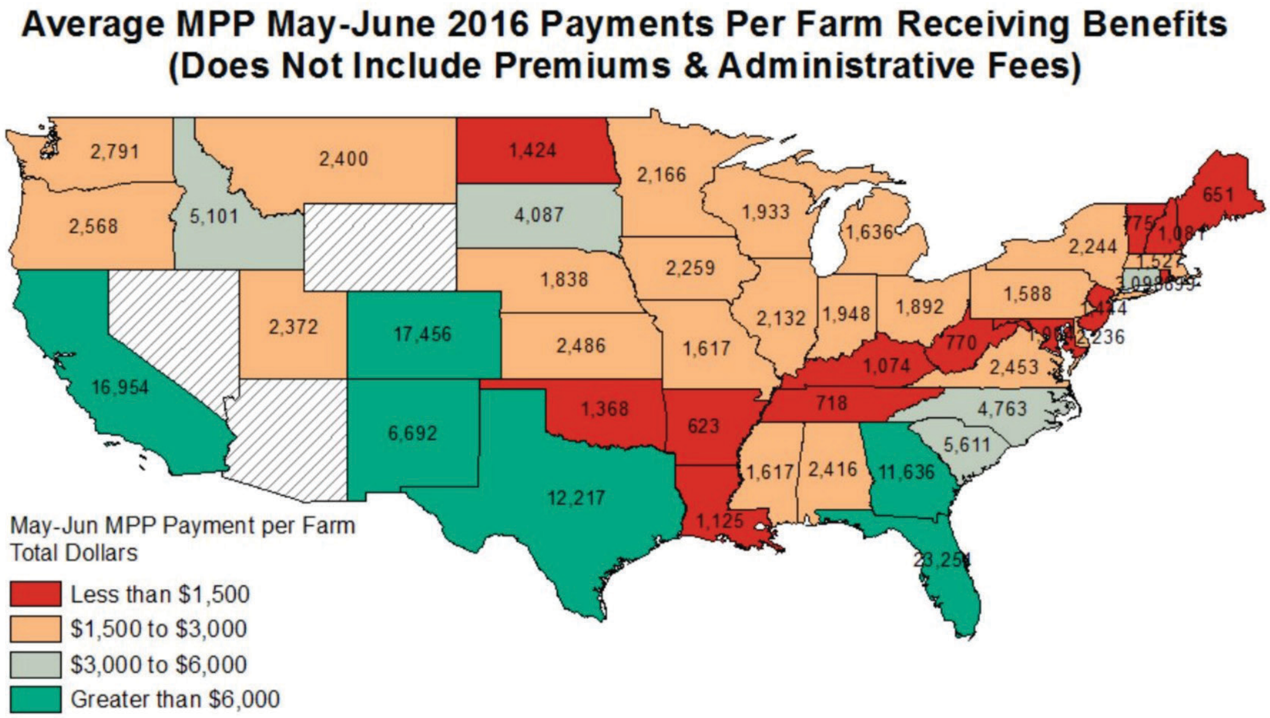
- USDA extended the sign-up deadline for participation in both 2015 and 2016. The sign-up extension allowed farmers to better observe the risk environment in milk and feed prices to make more informed risk management decisions.

- USDA also altered the program to allow MPP premiums to be an authorized deduction from farmers' monthly milk checks. This reduced the financial burden and cash flow constraints that had been associated with paying MPP premiums in lump sum payments by specific deadlines.

- USDA provided participating dairy operations an opportunity to update their milk production history to accommodate intergeneration transfers. This allows new family members to join the farm and allows farms to purchase additional MPP coverage to accommodate the growth in the dairy operation.

• USDA modified the coverage levels under MPP to decouple $4.00 and supplemental coverage options. The decoupling provides all participating operations with the $4.00 catastrophic coverage on 90 percent of the milk production history and allows farms to cover a different volume of milk at supplemental coverage levels.

MPP has collected nearly $100 million in farmer premiums and administrative fees during the first one and one-half years of the program. Indemnities and payments have been approximately $12 million for the same time period.



Options Papers on MPP include:

- How does MPP Catastrophic Coverage Compare to and Crop Catastrophic Coverage?
- Should the MPP Feed Ration be Increased by 10 Percent?
- Should MPP Premium Rates be Adjusted?
- Using State Data to Calculate Feed Costs for MPP
- What are the Differences Between MPP and LGM-Dairy?

September 1, 2016

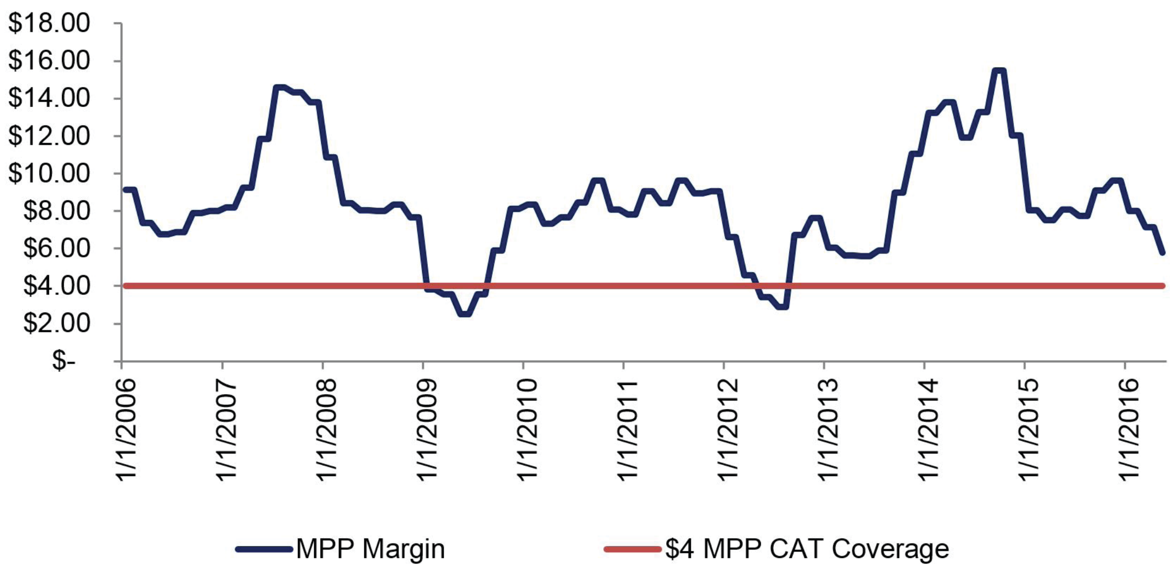
How does Dairy Margin Protection Program Catastrophic Coverage Compare to Crop Catastrophic Coverage?

BACKGROUND

USDA's Risk Management Agency (RMA) administers Catastrophic Risk Protection Endorsement (CAT Coverage) for crops. CAT coverage is a minimum level yield-based insurance policy that provides risk management protection on a farm's crop losses in excess of 50 percent of a farm's APH crop yield guarantee. Importantly, for CAT coverage the payment triggering mechanism is production based declines rather than price. If yield losses are experienced on a farm, indemnity payments are based on 55 percent of the price of the commodity. Growers pay a $300 annual administrative fee to receive CAT coverage. It is not available on all types of policies.

Under the Dairy Margin Protection Program (MPP), participating dairy operations pay a $100 annual administrative fee to receive $4.00 per hundredweight catastrophic coverage. Unlike CAT, MPP CAT coverage is price-based and makes program payments when the two-month average MPP margins falls below $4.00 per hundredweight during a bi-monthly period. In recent years there have only been six bi-monthly periods (12 total months) that the MPP margin has fallen below the $4.00 CAT coverage level.

MPP Margin and $4.00 CAT Coverage Option, $/hundredweight



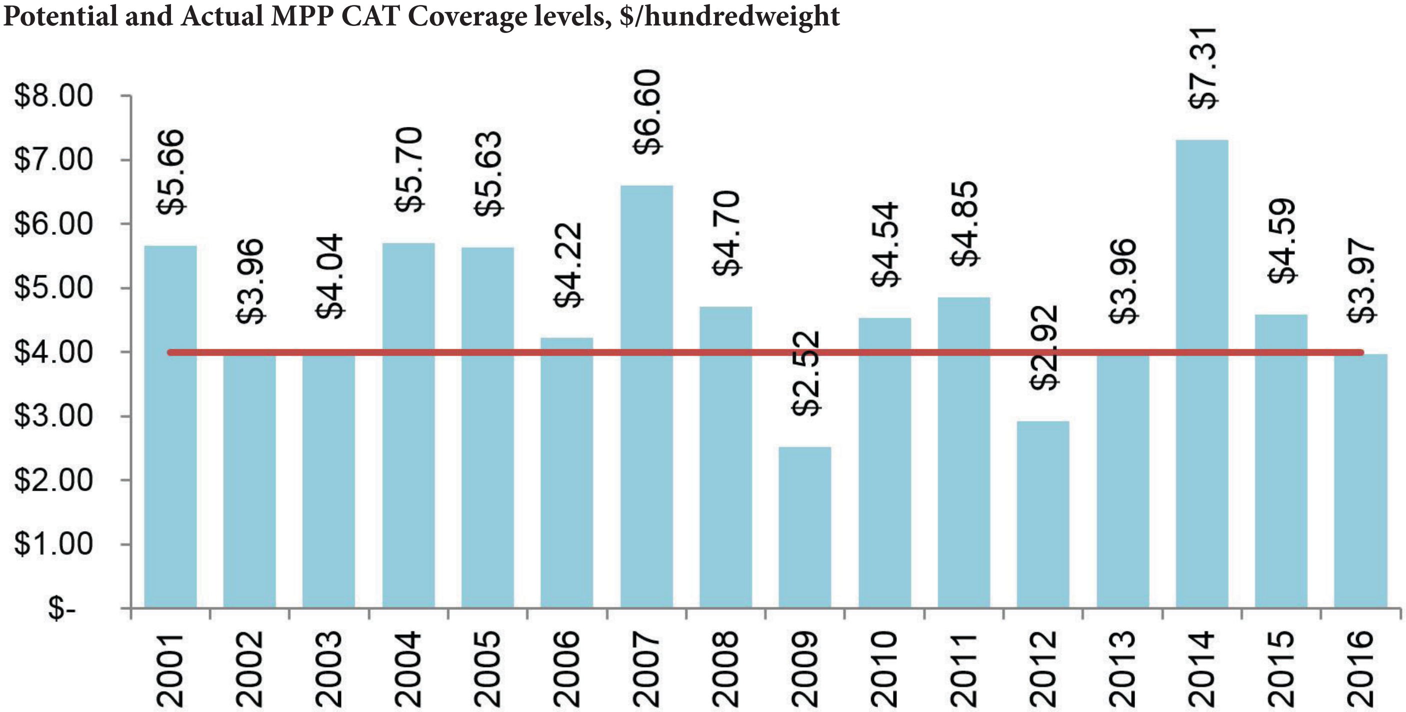
OPTION: Increase MPP Cat Coverage Level to Align With Crop Insurance Coverages

Some have suggested there is a notable difference between the two programs and that MPP CAT should be changed in the upcoming Farm Bill to reflect a similar level of CAT coverage as that provided to crops. Crop insurance payments are based on 55 percent of the crop price, while MPP margin corresponds to 47 percent of the historical average MPP margin. A similar 55 percent CAT coverage (based on prices alone) for MPP would correspond to a MPP margin between $4.50 and $5.00 per hundredweight. The following table identifies the MPP coverage levels as a percentage of the historical average margin.

MPP coverage level as a percentage of the historical average MPP margin (2001-2016)	
MPP Coverage Level in $/hundredweight	Percent of Historical Average ($8.60 per hundredweight)
$ 4.00	47%
$ 4.50	52%
$ 5.00	58%
$ 5.50	64%
$ 6.00	70%
$ 6.50	76%
$ 7.00	81%
$ 7.50	87%
$ 8.00	93%

On an annual basis, implied CAT coverage level (55 percent of prices) varies based on realized prices in milk and feed markets. Thus, if MPP CAT coverage were to follow market prices in milk and feed markets the minimum risk protection level would change on an annual basis. The following chart details the equivalent level of CAT coverage that would be provided by MPP at 55 percent of market prices.

Potential and Actual MPP CAT Coverage levels, $/hundredweight



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What are the differences between MPP and LGM-Dairy?

BACKGROUND

USDA operates two separate dairy producer income-over-feed-cost (IOFC) risk management programs, the Margin Protection Program (MPP), and the Livestock Gross Margin insurance program for dairy cattle (LGM-D). Both function similarly in that the programs make payments to dairy farmers when the IOFC margin falls below the farmer-selected coverage level.

MPP can be purchased once a year from July 1 to September 30 and is available to all dairy operations commercially marketing milk in the United States. About 50 percent of dairy producers participated in the MPP program and that represents about 80 percent of total milk production. LGM-D can be purchased once a month and is available on the last business Friday of each month on a first come, first served basis. Once the underwriting capacity has been reached, sales of LGM-D are suspended. LGM-D covers less than three percent of U.S. milk production each year. Premium subsidies for LGM-D during the 2011 to 2016 totaled $46 million and indemnities totaled $28 million. The average loss ratio across all coverage years is 27 percent, indicating that total indemnities are less than total premiums paid into the program.

ISSUE

Following are three key differences between MPP and LGM-D.

The LGM-D feed ration coefficients can be adjusted up or down to accommodate dairies that buy feed, grow feed, or those who face little feed market risk. However, the MPP feed ration cannot be adjusted to accommodate different business models, regional prices, or risk preferences. MPP feed ration coefficients are fixed in the 2014 Farm Bill.

LGM-D contract lengths are customizable and farmers can insure from one to eleven nearby months of margins. LGM-D insures average farmer-selected IOFC margins, rather than a sequence of bi-monthly margins used in MPP. This allows LGM-D to offer protection against a decline in average margins over a period of up to ten months. Farmers can purchase a single month or some combination of months during the ten-month contract period. Multiple contracts can cover a particular month's milk production so long as no more than 100 percent of milk marketed is insured. Indemnities under LGM-D are only paid if the average gross margin for the entire duration of the contract falls below the guaranteed level. Program payments under MPP are evaluated on a bi-monthly basis, and, unlike LGM-D, higher margins later in the coverage year do not offset lower margins or indemnity payments made in MPP.

LGM-D reflects actuarially sound premiums and will only allow farmers to insure IOFC margins at prevailing market prices. During every LGM-D sales period, the premiums and IOFC guarantee are recalculated based on farmer-selected feed use, deductibles, and futures prices in milk and feed markets. Coverage levels and premium rates under MPP are fixed and do not change during the enrollment period to reflect the risk environment. MPP coverage is available from $4.00 to $8.00 per hundredweight and the cost of participation is the same during each enrollment period.

LGM-D is highly customizable. However, the range of potential feed rations and different contract lengths that can be selected create a lot of complexity in the program.

The differences in policy design between the two programs make LGM-D the preferred risk management tool when milk prices or IOFC margins are above the historical average and expected to decline, and make MPP the preferred tool when IOFC margins are below the MPP threshold level of $8.00 per hundredweight. However, the 2014 Farm Bill prohibits farmers from alternating between the two programs.

Unlike field crops, dairy farmers may not simultaneously use Title I and Title XI commodity and crop insurance tools to manage IOFC margin risk. Dairy farmers may participate in either MPP or LGM-D but they may not simultaneously use both programs. Once a farmer enrolls in MPP, the farmer is obligated to participate in MPP for the duration of the Farm Bill and becomes ineligible to purchase LGM-D insurance even if the total milk covered is less than 100 percent of milk sales.

Table 1 - LGM-D Participation and Contract Summary Statistics

	2009	2010	2011	2012	2013	2014	2015	2016 1/	Total
Milk Covered (Mil. Lbs.)	40.2	187.2	4,617.3	4,047.4	3,417.9	2,773.9	4,873.8	2,007.3	21,965
% of U.S. Milk Supply	0.02%	0.10%	2.35%	2.02%	1.70%	1.35%	2.34%	0.95%	
Farmer Premiums ($)	287,201	781,589	14,277,105	10,281,918	9,216,808	6,625,019	12,160,013	4,044,530	57,674,183
USDA Subsidy ($)	0	0	10,735,652	8,861,771	7,656,348	4,966,934	10,177,578	3,143,476	45,541,759
Total Premiums ($)	287,201	781,589	25,012,757	19,143,689	16,873,156	11,591,953	22,337,591	7,188,006	103,215,942
Average Subsidy (%)	0%	0%	43%	46%	45%	43%	46%	44%	44%
Indemnities ($)	718,035	280,566	64,738	1,395,079	266,303	3,655,529	16,705,264	2,226,726	27,712,240
Loss Ratio (%)	250%	36%	0%	7%	16%	32%	75%	31%	27%

Source: USDA RMA

1/ YTD through May 2016

Contract Design Features of MPP and LGM-D

	MPP	LGM-D
Agricultural Prices Used	Uses USDA announced prices for all-milk, corn, soybean meal, and alfalfa hay.	Price guarantee is based on CME futures prices for class III milk, corn, and soybean meal.
Coverage Level	Coverage is available each year from $4 to $8 per cwt in $0.50 increments up to 90% of the maximum production over the 2011, 2012, and 2013 calendar years. The volume of milk covered is the same over all months of the contract.	Coverage is available at prevailing market prices. Insurable milk marketings are certified by the producer and subject to inspection from the insurance company. The percentage of milk covered can vary from month to month. Multiple contracts can be used to cover a month's production until 100% of a month's production is insured.
Sales Period	Farmer may change coverage options annually and coverage lasts one calendar year.	LGM-D is available for purchase each month. Farmers may sign up 12 times per year. Offered on a first come first serve basis and is subject to underwriting capacity.
Indemnity Payments	Payments made for consecutive two-month periods of Jan/Feb, Mar/Apr,…,Nov/Dec.	Payments made at the end of the coverage period following the expiration of underlying CME futures contracts.
Premium Rates	Fixed for the life of the Farm Bill (25% discount applied to 2014 and 2015 calendar year premium rates).	Designed to be actuarially fair. Sets the policy premium equal to 1.03 times the expected indemnity less the declared deductible.
Government Subsidy	No direct subsidy.	Premium subsidy up to 50% depending on the declared deductible selected by the farmer.
Farmer Customization	Fixed contract design with respect to feed ration and percent of milk covered. Dairy production margin formula is fixed. Feed quantities do not change.	LGM-D can be tailored to feed usage (includes feed equivalent conversion for other feed types). Ration quantities are not fixed.

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Should Dairy Margin Protection Program Rates be Adjusted?

BACKGROUND

Under the Dairy Margin Protection Program (MPP), producers pay premiums for coverage and must take an active role in selecting their coverage options each year. The basic $4.00 coverage option is provided to all farms enrolled in MPP and who pay the annual $100.00 administrative fee. For supplemental coverage above $4.00, farmers may purchase coverage from $4.50 to $8.00 per hundredweight in 50 cent increments on 25 to 90 percent of their base milk production history. Premiums are lower for the first four million pounds of milk covered (Tier 1) and increase for milk covered above four million pounds (Tier 2).

ISSUE

Premium rates are not actuarially sound, but instead are set by law and do not adjust to reflect changes in market conditions, prices or the risk environment.

MPP-Dairy Premiums and Administrative Fees

MPP-Dairy Coverage Level	Actual Tier 1 Premium (2016-18)	Actual Tier 2 Premium
Administrative Fee in Dollars	$100	
$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

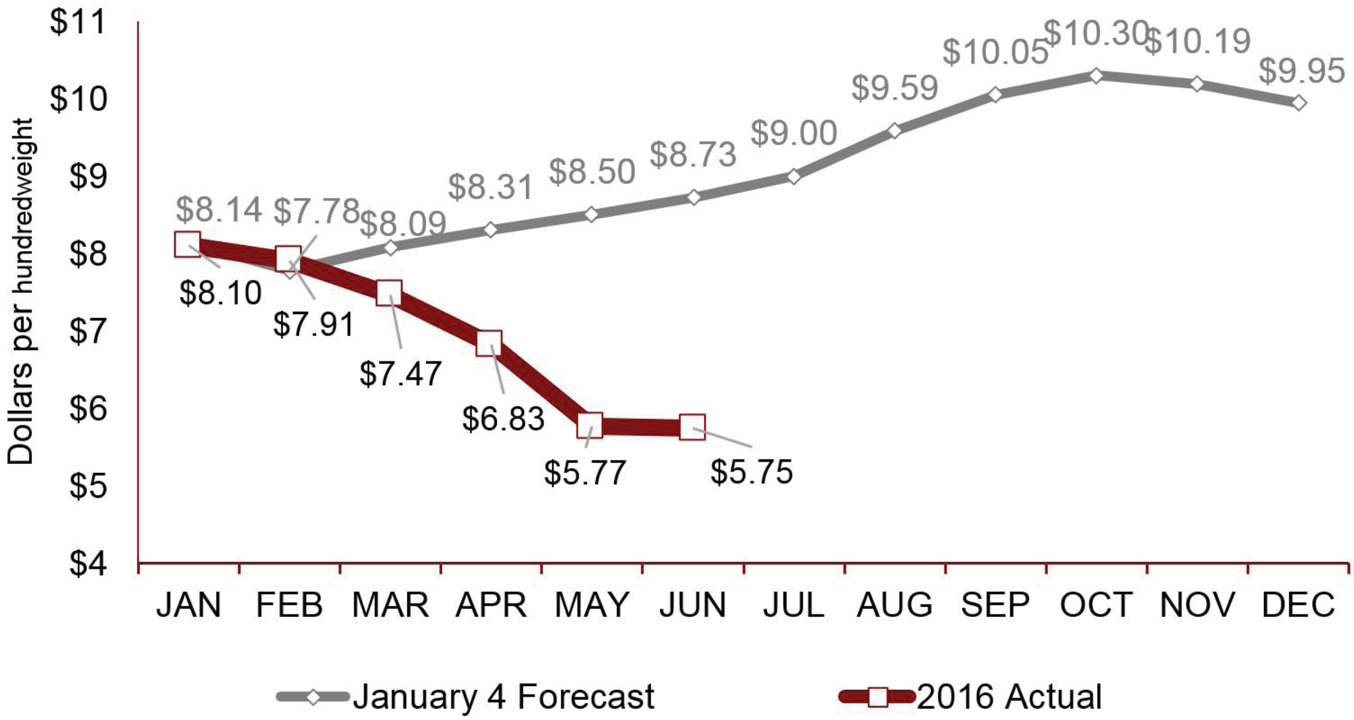
OPTION #1: USDA Resets MPP Premiums Annually

Provide administrative authority to USDA to set MPP premiums each year. This will allow USDA to set premium rates lower when forecasted MPP margins are above trigger levels, but may potentially result in higher premium rates when forecasted MPP margins are below trigger levels.

Futures market projections of milk and feed prices provide an estimate of potential program payments that might be useful to farmers in deciding which coverage level to select. For example, during the 2016 enrollment period futures markets indicated a low probability of triggering MPP. As a result, a majority of farmers evaluated the costs of participation against likely program payments and opted to enroll at the $4.00 catastrophic level. The $4 coverage level had the lowest costs of participation.

However, in June 2016, MPP margins fell to $5.75, their lowest levels since the program began. Many farmers were unprotected against this unforeseen margin decline. Providing USDA administrative authority to reset MPP premiums each year would allow the participation costs to align with the market conditions and risk environment. Using 2016 as an example, MPP premiums based on market conditions would have been lower during sign-up (as the forecasted margin was above MPP trigger levels) and would have made the costs and benefits of participation more even for dairy farmers.

USDA MPP Margin Forecast and 2016 Actual



OPTION #2: Lower MPP Premium Rates and Add Another Lower-Priced Tier

Reduce the HPO premium using a net farm income sliding scale or other forms of means testing. Increase the number of tiers from two to three to add an additional schedule of MPP premiums to assist small producers. For example, MPP premiums could be set lower for the first two million pounds of milk covered.

MPP premiums for all other tiers could also be reduced to make the program more affordable. For example, a premium discount of 25 percent was provided for the 2014 and 2015 calendar years for Tier 1 rates for all coverage levels except the $8 level.

OPTION #3: Actuarially Sound Premium Rates

Require the premium rate be set each year in an actuarially sound manner rather than setting the rates in law. This option would require USDA to estimate the probability of MPP triggering each year and then set premium rates according to the risk environment. After establishing the premium rates, fixed subsidies could be applied based on factors such as the amount of milk covered or the coverage level. Similar rate making procedures are used to establish crop insurance rates.

This differs from option 1 as the premiums rates would be determined using futures prices and mathematical models to determine the actuarially fair value.

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Should the MPP Feed Ration be Increased by 10 Percent?

BACKGROUND

During 2016, the USDA all-milk price declined by 14 percent year-over-year and was down 40 percent from the record high levels of 2014. Similar to milk prices, national average feed costs also declined by nearly 30 percent from 2014 levels. These price movements partially offset one another and in 2015, the Dairy Margin Protection Program (MPP) triggered only for those purchasing the $8.00 coverage level. $730,000 was paid to 264 operations. About 24,000 dairy operations paid MPP premiums and administrative fees in 2015, but did not receive a payment. For the first half of 2016, MPP margins have fallen to a low of $5.75 per hundredweight and have triggered $11.2 million in payments at the $6.00 coverage level and above. However, only 4,600 of the 24,292 dairy farmers participating in MPP during 2016 are likely to receive a program payment.

ISSUE

The current MPP feed cost formula was reduced by 10 percent by Congress and does not reflect actual feed costs.

OPTION: Increase the MPP feed ration formula by 10 percent

Require a 10 percent increase in the MPP feed ration formula. This restores the MPP feed ration to the value prior to the 10 percent reduction mandated by Congress in the 2014 Farm Bill. If the MPP ration formula had been 10 percent higher over the last one and a half years of the program, MPP margins would have been about $1.00 per hundredweight lower than those announced by USDA.

MPP Feed Ration in the 2014 Farm Bill and if 10 Percent Higher

	Corn Price ($/bushel)	Soybean Meal Price ($/ton)	Alfalfa Hay Price ($/ton)
10% Higher Ration	1.1920	0.00817	0.0152
2014 Farm Bill MPP Ration	1.0728	0.00735	0.0137

Note: Values are multiplied by the feed prices to determine the national average MPP feed costs.

Increasing the feed ration coefficient by 10 percent will improve farmers' ability to manage risk by increasing the likelihood of program payments. For example, using the higher feed ration coefficients would have reduced MPP margins in 2015 and the first half of 2016 by a range of $0.88 to $1.01 per hundredweight. In turn, this would have increased total program payments.

Estimates using 2015 and 2016 sign-up data indicate program payments would have been about $17 million higher and $36 million higher (respectively) if the 10 percent increase had been in effect.

got dairy revenue protection?

Class Price Option

Class Price Option Example

Dairy Revenue Protection under the Class III/IV Option provides revenue protection based on a index of state level revenue constructed with Class III and Class IV milk prices and the state USDA NASS all-milk yield. The producer can choose the percent of Class III and Class IV used to establish their Price Guarantee per hundredweight to tailor to their operation.

Guarantee Calculations

Quarterly Average CME Milk Futures Value		Farmer's Choice % of Price	Calculated Price
Class III	$17.00	75.00%	$12.75000
Class IV	$16.25	25.00%	$4.06250
		Price Guarantee/CWT	$16.81250

Farmer's Choice Milk Covered/Lbs	Price Guarantee/ CWT	Total Revenue Guarantee
4,000,000	$16.81	$672,500
	Coverage Level	90%
	Producer's Revenue Guarantee	$605,250

Actual Revenue Calculations

Quarterly Average CME Milk Futures Value		Farmer's Choice % of Price	Calculated Price
Class III	$16.90	75.00%	$12.67500
Class IV	$16.00	25.00%	$4.00000
		Price Guarantee/CWT	$16.67500

State-Indexed Actual Production/Lbs	Actual Price/ CWT	Actual Revenue
3,368,929	$16.68	$561,769

This is an example of realized prices and only applies to 1 quarter.
In this example, the producer would not have to pay all 5 quarters to get just one coverage.

Indemnity Calculations

Prod Rev Guarantee	$605,250
Actual Prod Revenue	$561,769
Indemnity	$43,481

Dairy RP Survey

We want your opinion on dairy insurance! We invite you to take a survey. The results will be used to examine current trends and identify what could help in times of fluctuating dairy prices. The survey can be found by going to:

www.FarmBureauSellsCropInsurance.com

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Should the Coverage Levels for the Margin Protection Program be Increased?

BACKGROUND

The Dairy Margin Protection Program (MPP) offers margin insurance to dairy producers on the difference between the national average all milk price and the national average prices for corn and alfalfa hay, and the Decatur, Illinois soybean meal price. Each year, dairy farmers may select an MPP margin and a coverage percentage of their milk production history to insure. Coverage levels range from $4.00 to $8.00 per hundredweight (cwt) and farmers may cover 25 percent to 90 percent of their milk production history.

Since 2001, the MPP margin has averaged $8.58 per hundredweight. Given this historical average, the MPP coverage levels of $4.00 to $8.00 allow farmers to protect as much as 93 percent ($8.00 ÷ $8.58 = 93%) of their historical average income-over-feed-cost margin. The non-feed portion of dairy farmers' operating costs that must be covered with the income-over-feed-costs includes veterinary care and medicine, bedding and litter, marketing, custom services, energy, repairs, interest, labor, capital recovery, land value, taxes, and general farm overhead. Based on USDA milk cost of production data, the U.S. average for these non-feed costs was $11.40 per hundredweight in 2016. Since that is the U.S. average, a number of farmers' operating costs were below and above this estimate.

Annual Average Non-Feed Dairy Costs of Production
Source: USDA ERS

ISSUE

While milk prices have declined by nearly 40 percent since 2014, USDA data reveals that non-feed costs have declined only 4 percent from their highs of 2013. Due to slowly declining non-feed related expenses, MPP coverage levels could be modified to reflect certain non-feed costs.

OPTION #1

Modify MPP coverage levels by increasing the levels above the current $8.00 maximum. This would allow dairy producers the opportunity to purchase additional risk management support to help cover some of the non-feed costs of production. However, increasing the coverage level would allow farms to protect margins well above the historical average. For example, a $10.00 MPP coverage corresponds to 117 percent ($10.00 ÷ $8.58 = 117%) of the historical average. A $12.00 MPP coverage corresponds to 140 percent ($12.00 ÷ $8.58 = 140%) of the historical average.

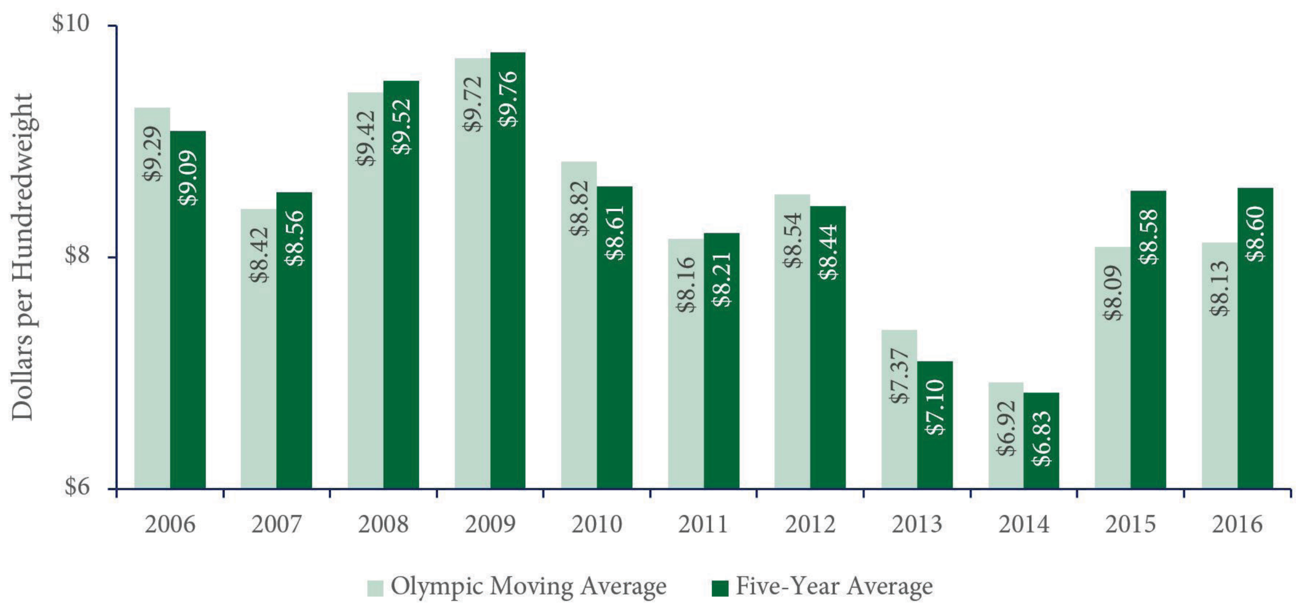
Due to the potential for higher MPP guarantees, the MPP margin formula may need to be reevaluated. For example, adding additional non-feed costs and keeping the MPP coverage levels unchanged would increase the frequency and magnitude of program payments. Alternatively, without altering the underlying MPP margin formula, increasing the MPP coverage levels would increase the frequency and magnitude of program payments. For more information on the MPP margin formula, see <u>Should the MPP Feed Ration be Increased by 10 Percent</u>.

Additionally, without offsetting adjustments to the premium structure or amount of milk eligible for coverage, any modification to MPP designed to increase the frequency or magnitude of program payments will increase the cost of the program. This may necessitate adjusting the MPP premium levels – potentially using a method that is more actuarially sound. For more information on actuarially sound MPP premium rates see: <u>Should Dairy Margin Protection Program Rates be Adjusted</u>.

OPTION #2

Similar to the Agricultural Risk Coverage program, MPP coverage levels could be reset each year based on a five-year Olympic moving average or a simple five-year moving average. An Olympic moving average excludes the highest and lowest value when calculating the sample average. Providing flexibility to the MPP coverage levels would allow farmers to purchase more market oriented risk management protection.

Moving Average MPP Margins



Following years with higher MPP margins levels, adjusting the MPP coverage level higher would provide risk protection as prices declined lower. This would provide an opportunity for farmers to better manage the lag between milk prices and non-feed operating costs. Following poor price environments, MPP protection would be lower (e.g. 2014).

Importantly, flexibility in the MPP coverage levels would require the program to adopt a more actuarially sound premium rating methodology rather than Congress setting the premium rate in statute for the life of the Farm Bill. Actuarially sound premiums with fixed subsidy percentages (i.e., variable rate coverage) may allow the program coverage options to be modified without raising the cost of the program.

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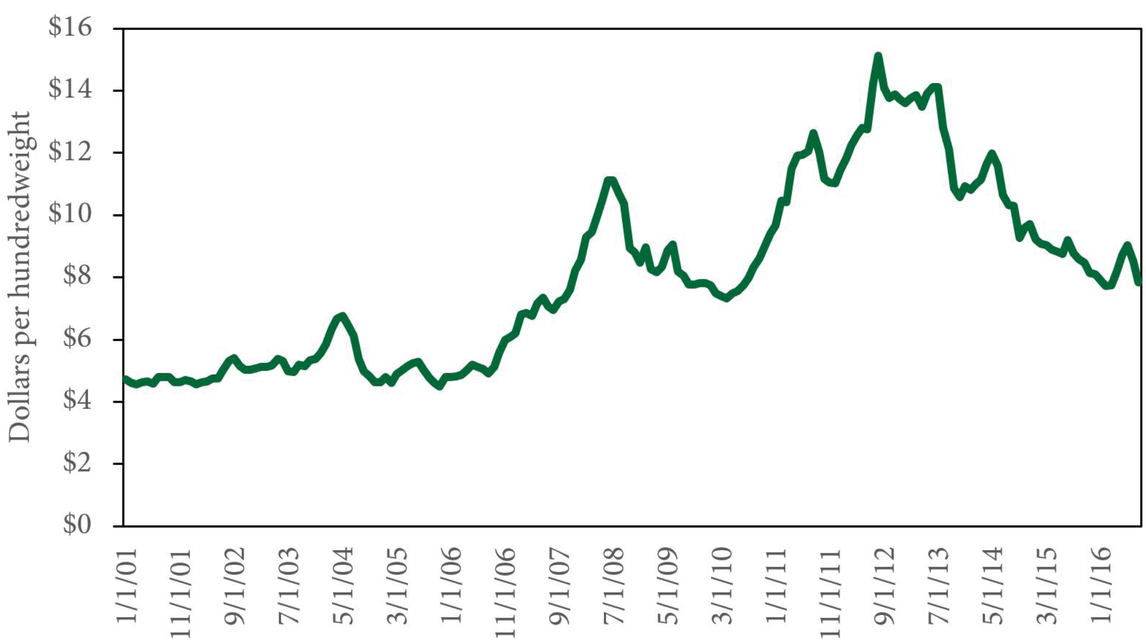
Should the Dairy Margin Protection Program be Replaced with Target Milk Price Protection or Revenue Insurance?

BACKGROUND

The Dairy Margin Protection Program (MPP) offers margin insurance to dairy producers on the difference between the national average all milk price and the national average prices for corn and alfalfa hay, and the Decatur, Illinois soybean meal price. Each year, dairy farmers may select an MPP margin and a coverage percentage of their milk production history to insure. Coverage levels range from $4.00 to $8.00 per hundredweight (cwt) and farmers may cover 25 percent to 90 percent of their milk production history.

Following several consecutive years of bumper crops in the U.S. and around the world, prices for livestock feed ingredients have fallen by nearly 50 percent. The parallel shift in both milk prices and livestock feed costs resulted in the MPP margin only falling below the maximum MPP level of coverage in the first half of 2015 and 2016 despite milk price declines of nearly 40 percent.

MPP Dairy Feed Costs in Dollars per Hundredweight



ISSUE

In a low feed cost environment, revenue variability to dairy farmers is very sensitive to swings in the milk price. MPP is designed to cover the difference between milk prices and fee costs and is therefore less responsive when both milk prices and feed prices decline.

OPTION #1

Replace MPP with a Target Milk Price Program. Similar to the Price Loss Coverage program and the recently repealed Milk Income Loss Contract program, replace MPP with a target milk price program based on the U.S. all-milk price. Under such a program, producers could receive protection against milk price declines below a market-based average or the historical average. Since 2001, the U.S. all-milk price has averaged $16.61 per hundredweight. Additional protection above a minimum milk price could be purchased, similar to MPP supplemental coverage options.

OPTION #2

Develop an Actuarially-Sound Dairy Revenue Protection Program (Dairy-RP). A Dairy-RP insurance policy would be modeled after revenue-based crop insurance programs. The policy would offer insurance protection on the quarterly revenue risk on the dairy farm (milk price multiplied by milk production). Dairy farmers would choose a milk price on which to insure based on futures market prices and could cover a volume of milk production per cow reflective of their state's milk production (providing regional-based risk protection). Dairy farmers would then select what percentage of the revenue guarantee to protect (e.g., a 10 percent deductible). The total guarantee would be equal to the product of the milk price, milk production, and insurance coverage level. Indemnity payments would be triggered when price or production declines result in actual revenue below the guaranteed revenue. A numerical example is provided below:

Dairy – Revenue Protection Example

	Lower Milk Price, Normal Yield
Class III Milk Futures Price	$18
Expected Quarterly Milk Production per Cow	5,000
Coverage Level (10% Deductible)	90%
Revenue Guarantee per Cow	$810
Final Class III Milk Price	$15
Actual Quarterly Milk Production per Cow	5,000
Actual Revenue	$750
Indemnity Payment per Cow (Guarantee Minus Actual)	$60
Number of Milking Cows	1,000
Dairy-RP Payment	$60,000

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USDA Data for Milk Margin Protection Program												
Vermont												
Farms Enrolled and at What Margin level												
											VT	
Margin level	$4	$4.50	$5	$5.50	$6	$6.50	$7	$7.50	$8	Total Enrolled	Ave. #/year	% enrolled
2015	207	1	15	7	83	203	18	54	0	588	853	68.93%
2016	527	1	0	4	18	15	0	1	0	566	838	67.54%
2017	456	0	0	1	5	3	0	0	0	465	802	57.98%

Vermont Production History of Dairy Farms Enrolled											
Margin Level	$4	$4.50	$5	$5.50	$6	$6.50	$7	$7.50	$8	Total Enrolled	total VT lbs.
2015	783,848,048	898,216	46,056,589	13,835,937	302,600,580	617,572,908	23,527,925	149,100,469	0	1,937,440,672	2,666,000,000
2016	1,821,254,725	1,256,856	0	12,730,978	19,273,629	17,984,147	0	1,109,219	0	1,873,609,554	2,724,000,000
2017	1,762,177,966	0	0	762,610	5,368,660	4,096,170	0	0	0	1,772,405,406	2,757,000,000 E

Production History Eligible for Payment (Production History Multiplied by Coverage Level Selected: 25% to 90%) for Margin Protection Program Dairy										
Margin Level	$4	$4.50	$5	$5.50	$6	$6.50	$7	$7.50	$8	Total Covered
2015	705,463,243	808,394	41,450,930	12,452,343	260,617,508	521,508,598	19,068,028	102,150,003	0	1,663,519,049
2016	1,639,129,274	1,131,170	0	11,457,881	17,346,268	15,079,148	0	998,297	0	1,685,142,038
2017	1,585,960,192	0	0	686,349	4,831,794	3,291,059	0	0	0	1,594,769,394

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Agency of Agriculture Food & Markets

Minutes
Vermont Milk Commission
October 13, 2017

Milk Commission Members: Secretary Anson Tebbetts (Chair), Senator Robert Starr, Representative Richard Lawrence, Harold Howrigan, Jr., Paul Doton, Jerry Booth, Linda Berlin, Jane Clifford, and Reg Chaput

Present: Paul Doton, Jerry Booth, Representative Dick Lawrence, Jane Clifford, Senator Bobby Starr, Reg Chaput

Absent: Linda Berlin and Harold Howrigan, Jr.

Meeting called to order at 9:30 a.m.

Minutes from the Commission meeting on September 26, 2017 were reviewed. A motion to approve was made by Senator Starr with a second by Clifford. Minutes were approved.

Information on the status of the dairy industry and Farm Bill Proposals was provided to the Commission members.

Ed Maltby – Executive Director of the Northeast Organic Dairy Producers Association. Information on the oversupply of organic milk and pricing levels of different organic buyers. The concerns of supply and prices is a national issue for organic dairy farmers. Organic dairy buyers are not adding farms at this time in New England. Believes that supply and demand will come into line late in 2018. Provided proposals for the Farm Bill.

Dan De LaBuere – National Farmers Organization (NFO) Dairy - NFO is a marketing association – not a cooperative – an has been marketing milk in the United States for over 50 years. NFO works with other organizations to market the milk of their associated farmers. Dairy Farmers of America (DFA)has worked with NFO in the northeast to market milk but that relationship will end in the future. Notice given in November of 2016 that marketing arrangement would end in November 2017 for all NFO associated farms in Northeast. Organic farms associated with NFO will not be affected. NFO has been working to secure a new market but has not been successful. DFA has provided a 6-month extension of the marketing agreement. As a part of the extension, NFO will have a separate federal rating, will need to segregate the milk and secure separate hauling. NFO is actively looking for a market for this milk. Vermont State Statute requires a 90- day notice to dairy farmers producers if there is a change in their market. In August, the notice was provided to all associated NFO dairy farmers for the potential end of the marketing agreement at the end of November. A new letter has been sent to all farmers about the 6-month extension. Dairy Farmers have been leaving NFO and it is estimated that there are 10 farms remaining with NFO for the 6-month extension.

Laurie Colgan, VT Agency of Education provided information on all school related feeding program ~~managed by the Vermont Agency of Education. Of all the schools in Vermont, only 3 schools do not~~

offer lunch and only 4 schools do not offer breakfast. 900,000 gallons of milk per year provided through all nutrition programs. Total milk needed is 7,740,000 pounds. State makes 2.7 billion pounds per year.

Karen Flynn and Donna Bister – Vermont Department of Health, Women, infant and Children Program (WIC) – WIC is focused on health outcomes for pregnant women, infants and toddlers up to the age of 5. Home delivery of WIC food products has ended – WIC recipients receive an EBT card that is programs for purchases of WIC approved foods. 113 vendors in Vermont where EBT cards can be used. If there is no store in the area, stores across state borders can be approved and use of the EBT card is recorded in Vermont. 60% of eligible Vermont residents utilize the WIC program.

Paul Remillard and Julie Jacques USDA Farm Services Agency – Review of Milk Margin Protection (MPP) Data for Vermont. Voiced a concern that the MPP has not met its intended purpose for dairy farmers. Multiple educational opportunities for dairy farmers were completed in Vermont prior to the first sign up for the program. 28 times more money paid into the program than was paid out to dairy farmers in Vermont. Other possible programs that benefit Vermont Dairy Farmers were discussed.

1. Vermont produces the best hay and forages. Can the government provide incentives for hay and forage production? All safety nets are gone for hay and roughages in Farm Bill. Excessive moisture more of an issue in Vermont than drought. No program to protect on this. Insurance or other payment program for quality loss on feed.
2. Livestock forage and livestock indemnity program is tied to a heat index for pasture losses. Heat index is not a good indicator for Vermont pasture growth. Could there be another indicator for pasture growth issues in Vermont?

Public Comment –
Jacques Rainville Jr. – Highgate – NFO farmer who is concerned about the market for his milk. Discussed supply management for all dairy farms across the country – he believes a 15% cutback in milk production is needed. The current situation is a buyers' market and there is no place to go with milk. Concerned that his farm may face bankruptcy. Very concerned that lager farms continue to expand with the ability to invest – why should farms be able to expand if smaller farms do not have a market for their milk? Is concerned about investing in Water Quality improvements if his farm will not have a market for milk in the future. Could a whole herd buyout be used to reduce cow numbers? Farmer spreads the wealth throughout the community. Organic should be a choice – not a way out.

Merri Paquin – Williamstown. Voiced many concerns. Organic dairy producers with Organic Valley. Price has been reduced and farm is on a quota. Feels being pushed out of business and not being listened to by Organic Valley which is a cooperative. Has requested that all Organic Valley employees take a pay cut. Believes that there could be a Vermont brand of bottled Organic Milk. Family experienced a barn fire in 2014 and did not have fire insurance at that time. Worked with Farm First, Farm Viability and Vocational Rehabilitation to assist her on next steps. Barn is being rebuilt and is half finished, but able to milk cows in the facility. Feels there are concerns with how the barn looks from Organic Valley. Husband is very ill and children are committed to dairy farming. Why can't they just farm and make a living? Concerned for young farmers who want to take part in dairy farming. What is VT doing to help young farmers? 46 small dairy farmers – will sit and beg as VT dairy farmers as a protect in the near future. She will not lose the farm and land but will not milk cows. Cannot keep milking at a loss – broken hearted about the situation. When begging – will no longer be farming but will give any money collected to a struggling dairy farmer.

Milk Commission members discussed the next meeting scheduled for November 7, 2017. Commission members would like information on the following:

- Bob Parsons, UVM Extension – economic analysis of cost of production for organic dairy.

- New England Dairy Promotion Board to present to the Commission on breakfast initiative.
- Request a presentation on NMPF recently passed class I averaging. Pros and cons.
- Request a presentation on additional solids in fluid milk
- What are other states doing around the farm bill with Dairy? Invite Secretary's to present or provide a written information.
- Farm Bill – Farm Bureau proposal for new Dairy Revenue insurance and other Farm Bureau initiatives.
- At least 2 hours of witnesses to discuss the farm bill.

Speaker already secure for November 7 meeting:

- Congressional delegation will review Senate and House goals for Farm Bill.
- Bob Gray, States Ratification Committee will review ideas for the Farm Bill

Meeting adjourned at 2:15 a.m.

Minutes respectively submitted by Diane Bothfeld, Director of Administrative Services and Dairy Policy, Vermont Agency of Agriculture, Food and Markets