Dairy Margin Coverage (DMC) Program

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A Safety Net Option for Farmers When Milk Prices Drop

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➔ Background

Dairy farmers are under extreme financial pressure due to successive years of prices paid for their milk being below what it costs to produce it. In fact, 2,700 dairy farmers nationally, including over 350 dairy farmers in Minnesota, have quit dairying in the past year alone. Dairy farming has been one of the primary avenues for existing traditional small- and mid-sized farmers to make a living, and for new farmers to enter the profession. The majority of dairy farms in Minnesota manage a herd size somewhere below 250 cows.

Especially at this scale, dairy farming is a benefit to rural communities, to the environment, and to the agricultural economy in states throughout the U.S. This is in addition to the value of the milk, cheese, butter, ice cream, and other value-added food items produced by the rich farming tradition that incorporates a balance of cows, perennial forage, cash crops and family farm labor, as well as management and mentoring. Congress has passed specific dairy safety net programs involving insurance in past Farm Bills, and **Dairy Margin Coverage (DMC)** is the newest, improved program authorized in the 2018 Farm Bill.

➔ What is the Dairy Margin Coverage program?

It is an insurance program designed to provide dairy farmers protection when their profit margin per hundredweight (cwt) of milk produced drops below cost of production as determined by feed cost calculated by USDA. It is run through a farmer's local Farm Service Agency (FSA) office.

➔ What is the level of protection, and what is the cost to dairy farmers?

There are different levels of coverage a farmer may choose, but the best coverage level locks in a profit margin of $9.50/cwt milk produced based on USDA calculated feed cost. The cost for this level of protection is 15 cents/cwt milk produced. Farmers opting to commit to this level of coverage through 2023 can receive a 25% discount on this premium.

➔ There is already too much milk, which is causing the low prices. Is there a limit to how much milk production is covered by DMC?

DMC is available to all dairy farmers, but the $9.50 cwt margin protection is limited to a dairy farmer's first 5 million pounds of milk produced. This is roughly the production of a 240-head dairy. The cost of DMC at volumes of milk beyond this production level increases, and on its own is unlikely to be a program used to encourage expansion beyond 5 million pounds annual production, and thus should not contribute to the problem of oversupply.

➔ I produce my own feed. How does USDA calculate feed costs?

USDA calculates feed costs based on USDA National Agricultural Statistics Service (NASS) and Agricultural Marketing Service (AMS) monthly publications and reports.

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➔ How are payments made by farmers for the program, and how are payments made to farmers when the calculated profit margin falls below $9.50/cwt?

Payment arrangements for DMC policy are made at your Farm Service Agency (FSA) office. Most common options are direct deposit from a farmer's account, either quarterly or yearly. Payments to farmers when the margin is below $9.50 cwt is determined by FSA in communication with the farmer's local co-op buyer, and paid to the farmer by FSA.

➔ Money is already tight. Why should farmers enroll, and how can the recent DAIRI law passed by the Minnesota Legislature help?

If farmers are looking to buy insurance, instead of or in addition to adding off-farm income, DMC makes financial sense. If farmers sign up, it is retroactive to Jan 2019, and will already have paid out in consecutive months above the cost to enroll. **In addition, the Minnesota Legislature passed the Dairy Assistance, Investment, and Relief Initiative (DAIRI)** this past session, which earmarks $8 million in support for Minnesota dairy farmers. This pays for part of the DMC premium. For example, DAIRI will reimburse dairy farmers for 2/3 of the premium (10 cents/cwt) of the federal DMC program at the $9.50 margin level, (15 cents/cwt).

➔ I enrolled and paid in to the last dairy insurance program, and it didn't help much. Can I get a refund?

Yes. Dairy farmers who paid in to the Margin Protection Program for Dairy (MPP-Dairy) from the last Farm Bill can get a refund of premiums paid into that program if they sign-up

➔ What does this all mean for me, as a dairy farmer making decisions to sign up for DMC and DAIRI?

Example: 2019 April-June Forecast—Dairy Margin Coverage*

Assuming 4,167 cwt per month (5 million pounds annually) covered at $9.50 coverage level for $0.15/cwt

Example numbers based on roughly 240-head herd monthly production.
Adjust accordingly for your herd size based on monthly production.

Month	April	May	June
Premium	$625	$625	$625
DMC Payment	$3,303	$3,158	$2,273
DAIRI Reimbursement	**$416**	**$416**	**$416**
DMC cost to farmer with 240-head herd size.	$209	$209	$209

- Total DMC Premium Cost to farmer APRIL-JUNE with DAIRI reimbursement: $627
- Total DMC Payments to farmer APRIL-JUNE: $8,734
- Net Benefits to farmer APRIL-JUNE: $8,107
- Net Benefit/Enrolled CWT APRIL-JUNE: $0.648

* Based on USDA margin forecasts reported March 7, 2019.

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for DMC through 2023 when the current Farm Bill expires. Up to 50% of this will be refunded in cash, or up to 75% will be applied to DMC premiums.

➔ Who do I talk to for more information, and where do I go to sign-up?

Your county Farm Service Agency office will have all the information you need, and that is where you sign up for DMC. Farmers have until September 20, 2019, to sign up. Talk to your dairy co-op to sign-up for the Minnesota State DAIRI support initiative to help defray the cost of the DMC premium.

➔ I see how DMC may help our farm, but it doesn't address the real problem. The problem is continued price levels that are insufficient to support a viable future in dairy for the majority of dairy farmers. Is anything being done to address this root problem? Mega-dairies continue to be built that contribute to oversupply and the resulting price below cost-of-production.

The 2018 Farm Bill did not address the price/oversupply problem, and LSP is currently unaware of any Milk Marketing Orders or USDA action underway designed to address this root problem.

But recognition that the problem is greater than a price insurance fix is the focus of a joint effort of the National Farmers Organization and Farmers Union organizations from Wisconsin, New England, Michigan, Minnesota, New Mexico, California, and the Rocky Mountain region, with support from the National Farmers Union and Holstein Association USA.

➔ Summary & Next Steps

DMC can be helpful for dairy farmers at this time of extreme pressure in dairy farming, and the Land Stewardship Project encourages dairy farmers to look at this program closely, along with the supplemental Minnesota DAIRI support initiative, to see if it is right for their farm. Sign-up is underway at FSA offices now.

Yet, the structural issues of price and supply, as well as insufficient oversight of the mega-dairy expansion underway that aims to capture market share at the expense of many dairy farmers and rural communities across Minnesota and the U.S. requires prompt and aggressive action by our state and federal elected lawmakers. Small- and mid-sized dairies are a benefit to rural communities, to the environment, and to the agricultural economy in states throughout the U.S. Our public farm policy needs to tackle the pressing issue threatening the future of small- and mid-sized dairy farms, and we need legislation that is up to the task of doing so.

➔ Contact for More Information

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This fact sheet is brought to you by the members and staff of the Land Stewardship Project, a nonprofit organization devoted to fostering an ethic of stewardship for farmland and to seeing more successful farmers on the land raising crops and livestock. For more information, call 612-722-6377 (Minneapolis), 320-269-2105 (Montevideo) or 507-523-3366 (Lewiston); or visit www.landstewardshipproject.org.