Dairymen paid $95.7M into program, received only $12.2M in indemnity payments

MPP from Page 1

Carol Ryan Dumas/Capital Press

Rick Onaindia, CFO of Bettencourt Dairy, talks about why buy-up coverage through the Margin Protection Program didn't pencil out for the operation.

USDA's dairy MPP premium schedule

(Administrative fee of $100 per operation; dollars per hundredweight of milk.)

Margin coverage	Tier 1* (2016-18)	Tier 2** (2014-18)
$4.00	None	None
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

*Covered production history less than 4 million pounds. **Covered production history more than 4 million pounds.

Source: USDA Farm Service Agency

in the dairy industry — particularly the National Milk Producers Federation, which originally developed the program when the current farm bill was written.

All told, dairymen paid almost $95.7 million into the program in 2015 and 2016 and received only $12.2 million in indemnity payments — despite depressed milk prices well below the cost of production.

Contente purchased buy-up coverage in 2015 to insure a $7.50 margin on 4 million pounds of milk, which represents a little more than two months of his production. Premiums to cover production above 4 million pounds are significantly higher, making it unaffordable to cover a higher margin on more of his milk, he said.

His milk price sank to a low of $12.60 per hundredweight. in May of that year, while his cost of production was about $17.

But USDA computed a national margin that was higher than $7.50 all year, and he didn't receive one cent from the insurance program.

"It should have triggered some kind of a safety net. I put several thousand dollars in the program and got no benefit," he said.

The following year, he didn't buy any additional coverage — and he wasn't alone. The program's performance "soured a lot of people," he said.

Producers who signed up are locked into the program for the life of the farm bill. But the majority of them are now just paying the required $100 annual fee, shrugging their shoulders and forgetting about it because they believe they won't get anything out of it, he said.

Coverage falters

The program is "certainly not up to expectations," said John Newton, director of market intelligence for the American Farm Bureau Federation.

In 2015, about half of U.S. dairy farmers signed up, representing about 80 percent of U.S. milk production, and 56 percent purchased buy-up coverage, he said. Producers paid $73 million in premiums and fees.

When milk prices collapsed, USDA calculated that margins only fell below insured levels at the highest coverage of $8 per hundredweight. The program paid a total of $727,000 to the 264 producers who had elected that level of coverage. The other dairy operations received nothing.

Producers who signed up are locked in but can make annual changes to their level of coverage. The program's poor performance had many backing away from higher coverage and instead opting to participate only at the $4 margin level, he said.

"They voted with their feet," Newton said.

By last year, only 23 percent of participating farms paid for buy-up coverage, representing 12 percent of insured milk production.

"While producers can't walk away, they weren't actively participating above the catastrophic level," he said.

Milk prices fell further in 2016, but USDA's program margins fell below $8 in only two periods — $7.14 in March-April and $5.76 in May-June. The program paid out only about $11.5 million after taking in $22.8 million in premiums and fees.

"Performance again was well below expectations, and producers rolled back coverage," he said.

For 2017, only 8 percent of participating producers bought buy-up coverage on only 2 percent of the insured milk.

"People look at premiums paid in and dollars paid out as a measuring stick," Newton said.

Nonetheless, "I think it's working exactly how Congress designed it to work, it just hasn't delivered program payments. It can definitely be improved," he said.

Origin and outcome

In 2009, dairymen faced crippling losses that revealed a gaping hole in the USDA safety net. Mending that hole with antiquated dairy policy developed in simpler times was not a viable option.

The dairy safety net included the Dairy Price Support Program, which indirectly supported minimum milk prices through government purchases of dairy products such as cheese and milk powder. It also included Milk Income Loss Contract payments, which paid 45 percent of the difference between a set price for fluid milk — called Class I — in Boston and the actual market price on a limited amount of production.

Both proved woefully inadequate in the 2009 devastation, which saw dairymen burning through equity to borrow money to try to stay in business.

The National Milk Producers Federation set about to develop a 21st century risk-management tool that would be more flexible, comprehensive and equitable than any previous federal program.

The result was the Margin Protection Program, but significant changes to the program during congressional deliberations on the 2014 Farm Bill rendered it ineffective, according to NMPF leaders.

As originally designed, the MPP program "would work fine for us right now," said Jim Mulhern, NMPF president and CEO.

The problem is the changes made by Congress — principally the feed cost calculation in the margin formula, which was reduced by 10 percent, he said.

The resulting formula underestimates true feed costs by about $1 per hundredweight. That might not seem like a lot, but it is, he said.

"That's the major fix we have proposed for the program going forward," he said.

Changes to NMPF's original proposal were based on Congressional Budget Office cost projections, which turned out to be inaccurate, he said.

CBO's numbers continue to be dramatically off base, said John Hollay, NMPF vice president of government affairs.

The original scoring was that the program would cost about $1 billion over 10 years and could be too expensive in some years. That led to the reduction in the feed calculation, he said.

"But what we've seen is the exact opposite," with the government making money on the program, he said.

Going forward, CBO is acting under the same assumptions, projecting significant government outlays.

"Obviously there is some confusion at CBO on what it actually costs," he said.

While CBO scoring will challenge changes to the program, it won't preclude NMPF from trying to get the policy right first and working on the budget issues after a policy is in place for a fundamentally sound safety net, he said.

NMPF is recommending other changes as well, including using more precise data to calculate feed costs, lowering premiums, greater sign-up flexibility and expanding the use of other risk-management tools in conjunction with MPP.

"The real point of all these changes is that together they will provide the safety net envisioned when MPP was first formulated," Mulhern said.

Another route

Rick Onaindia, CFO of Bettencourt Dairy in Wendell, Idaho, said he doesn't see why dairymen wouldn't sign up at the catastrophic $4 level and pay the $100 fee. By anyone's calculations, he said, it would pay off in a disastrous year like 2009.

But most dairymen he knows didn't see a benefit in purchasing additional coverage, and he can't think of anyone who did, he said.

He went back and compared historical national milk prices and feed costs with Bettencourt's numbers, and the program just didn't pencil out for the operation.

"The correlation was really poor, under 60 percent," he said.

The income-over-feed margin is so different around the country that using a national average is probably an inherent problem in the program, he said.

Besides, the average dairyman today has plenty of ability to hedge his feed cost and milk price, and most in Idaho — who haven't operated under a federal milk marketing order in quite some time — are active in hedging income over feed, he said.

"I don't know anybody that hasn't got a variety of options at minimal cost," he said.

Dairymen can lock in their feed prices with grain brokers for an extended period, and milk processors offer a wide variety of options to mitigate revenue risks, such as forward contracting. In addition, producers can work with brokerage firms, such as Rice Dairy or FCStone, to hedge their risks through futures trading.

"Most dairymen will look at those opportunities rather than paying for buy-up coverage for a $6 or $7 margin. So you get to the same place arguably easier," he said.

NMPF's recommendation to change the feed calculation in MPP is a step in the right direction, but it still won't be adequate, Contente, the California dairyman, said.

At this point, most dairymen have no trust or faith in the program, he said.

"I think we chose to go down the wrong path in the last farm bill," he said.

Supply management was stripped out of the original proposal, the calculations and triggers were tweaked and the budget baseline for dairy was reduced to a ridiculously low level, he said.

"We wound up with a program that leaves us with no safety net," he said.

In addition, there are a lot of issues with the milk-pricing system, he said.

"I don't have too much faith in National Milk coming up with some strong policy for a safety net," he said.

The organization pushed MPP, saying it was going to be "the cat's meow, a new safety net better than before … but in the end, we wound up with basically nothing out of it," he said.

Mulhern said he understands producers' frustration.

"There is no question the producers have diminished confidence in MPP because of the way the program has performed the last two years," he said.

But the program in its original form would have been effective, and restoring key provisions that Congress removed is the goal.

"Once people see the changes and how the program operates under the changes, I have no doubt that they'll see it is the effective safety net program that our industry needs," he said.

No growers in Oregon have taken advantage of mediation program to resolve GMO disputes

GMO from Page 1

While supporters of SB 1037 said they face market shutdowns from the presence of biotech traits in their seeds, opponents of the bill said very few organic growers reported crop loss from GMOs to USDA.

No growers in Oregon have taken advantage of a mediation program overseen by USDA to resolve GMO disputes, said Barry Bushue, president of the Oregon Farm Bureau, which opposed the bill.

The right to self-determination among local governments versus the efficiency of statewide agricultural rules was also debated during a legislative hearing.

"We're asking for flexibility in Oregon," said Mary Middleton, director of Oregonians for Safe Farms and Families, a group that supported a ballot initiative banning GMOs in Josephine County.

While voters in Josephine County voted in favor of the GMO ban in 2014, a state judge has ruled the ordinance is pre-empted by state law.

Middleton urged the committee members to "honor the will of the people" by passing SB 1037, which would retroactively make Josephine County's ordinance effective.

Proponents of SB 1037 argued that lawmakers passed the statewide pre-emption on local seed rules with the understanding that Oregon regulators would step into the breach, but that hasn't materialized.

"Our farms remain at risk of contamination because the state has not put any protections in place," said Carol Valentine, a Josephine County resident.

The Association of Oregon Counties opposed SB 1037 because genetic engineering is a complex issue best left to the state government, said Mike McArthur, the group's executive director.

"This is not the proper role for a county government to be engaged in," he said.

Lawmakers created an exception to the 2013 pre-emption bill for Jackson County, which already had a GMO ban proposal on its ballot at that point.

McArthur said the government of Jackson County is nonetheless not enforcing the GMO ban due to a lack of resources.

Craig Pope, a Polk County commissioner, said he sympathizes with the organic farming community but said county governments need to focus on public safety and other key services.

"Continuing to hammer at pre-emption is not going to solve this problem," Pope said.

The economic threat of cross-pollination among organic, conventional and GMO crops was also debated at the April 12 hearing.

Buyers of organic seed have no tolerance for traces of biotech traits, so the risk posed by GMO crops is a one-way street that can only damage organic growers, said Don Tipping, an organic producer in Southern Oregon.

"For us, this is an economic issue," he said.

Helle Ruddenklau, a seed grower in Polk County who opposed SB 1037, said the problem of cross-pollination isn't limited to GMO crops, but farmers find ways to resolve the issue.

For example, if a neighbor is planting a related seed crop, Ruddenklau establishes a buffer strip to distance her crop from the pollen, she said.

"That's a financial burden for us, but it's a cost of being a certified seed grower in Oregon," she said.

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