Congressional Research Service
Informing the legislative debate since 1914

IN FOCUS

August 29, 2022

Farm Bill Primer: Support for the Dairy Industry

The Dairy Margin Coverage (DMC) program was enacted in the 2018 farm bill (P.L. 115-334) to provide income support to dairy operations. DMC replaced the 2014 farm bill's Margin Protection Program (MPP; P.L. 113-79, as amended by the Bipartisan Budget Act of 2018, P.L. 115-123). Prior to 2014, the U.S. Department of Agriculture (USDA) purchased dairy products to support milk prices at certain levels. Some stakeholders pointed out that support based only on the price of milk failed to account for rising feed costs. In 2014, Congress created a margin program—which defined the margin as the difference between the USDA national all milk price and a calculated feed cost—to provide milk producers optional risk protection on price and feed costs. DMC expires December 31, 2023.

DMC Basics

The dairy margin program allows milk producers to buy a guaranteed margin for their milk production. For example, if the margin—all milk minus feed cost—amounted to $9.00 per hundredweight (100 pounds; cwt) of milk for a month, producers who selected $9.50 margin coverage would receive a $0.50 per cwt DMC payment on covered production. Under DMC, producers may select margin coverage from $4.00 per cwt up to $9.50 per cwt for annual milk production of 5 million pounds or less (Tier I). For milk production over 5 million pounds (Tier II), the margin coverage tops out at $8.00 per cwt. The $4.00 margin, or catastrophic coverage, is free for all dairy producers. For margin coverage above $4.00, producers pay increasing premium rates as specified in statute (**Table 1**).

A participating dairy producer must have an established milk production history with USDA's Farm Service Agency (FSA) and pay an annual administrative fee of $100. The fee is waived for beginning, limited resource, socially disadvantaged, or veteran producers. Each year, dairy producers participating in DMC choose a margin coverage level and the share of their milk production history to cover—from 5% to 95%—and receive DMC payments for months in which the margin is triggered.

The total premium amount that producers pay for margin coverage above $4.00 per cwt is a product of the margin level premium that is set in statute and the share of production history the producer selects. Initially, producers had the option to purchase either Tier I or II margin coverage for the full five years of DMC instead of making an annual selection. In return, milk producers would receive a 25% discount on premium costs.

FSA calculates and reports the DMC milk-feed margin each month (**Figure 1**). If margin payments are triggered, producers are paid for a twelfth of covered annual milk production history. Payments under DMC are subject to sequestration reductions of 5.7% in 2021 and 2022.

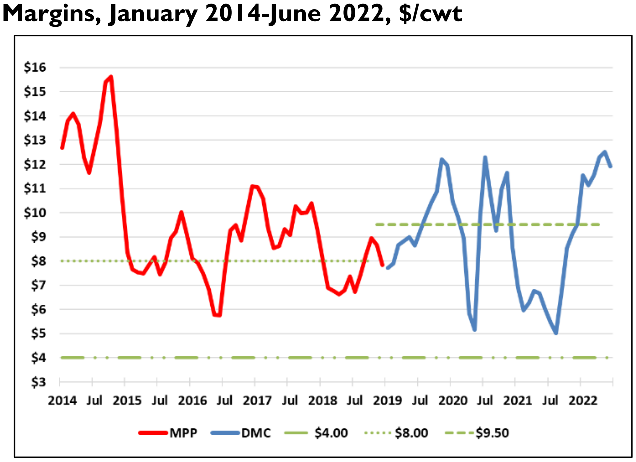
Table 1. DMC and MPP Margin Premium Rates Compared, $ per cwt

	Tier I ≤ 5 million lbs		Tier II > 5 million lbs	
Margin	MPP	DMC	MPP	DMC
$4.00	$0	$0	$0	$0
$4.50	$0	$0.0025	$0.020	$0.0025
$5.00	$0	$0.005	$0.040	$0.005
$5.50	$0.009	$0.030	$0.100	$0.100
$6.00	$0.016	$0.050	$0.155	$0.310
$6.50	$0.040	$0.070	$0.290	$0.650
$7.00	$0.063	$0.080	$0.830	$1.107
$7.50	$0.087	$0.090	$1.060	$1.413
$8.00	$0.142	$0.100	$1.360	$1.813
$8.50	NA	$0.105	NA	NA
$9.00	NA	$0.110	NA	NA
$9.50	NA	$0.150	NA	NA

Sources: MPP: Tier I Bipartisan Budget Act (P.L. 115-123), Tier II Agricultural Act of 2014 (P.L. 113-79); DMC: Agricultural Improvement Act of 2018 (P.L. 115-334).

To date (January 2019-June 2022), there have been 42 months of margin calculations, and producers who opted for a $9.50 margin have received payments in 23 months. Producers selecting margin coverage under $9.50 have received payments in some of those months, particularly when the margin was relatively low in 2021. The annual average monthly margin was $9.61 in 2019, $9.45 in 2020, $6.92 in 2021, and $11.80 through June 2022.

Figure 1. Monthly MPP and DMC Milk-Feed Cost Margins, January 2014-June 2022, $/cwt



Source: USDA, FSA.

Excluding 2020, participation by dairies and the amount of milk production covered have both exceeded 70%. Total payments under DMC have totaled about $1.9 billion (**Table 2**). Participation was likely relatively low in 2020, reflecting producers' expectations during the fall 2019 sign up period of limited DMC payments in 2020.

Table 2. DMC Enrollment, Covered Production, and Total Payments

	Dairies	%	Billion lbs.	%	$ million
2019	23,358	76.8	178.3	70.4	$452
2020	13,471	47.2	121.0	50.3	$234
2021	19,047	72.7	162.5	73.4	$1,189
2022	17,716	71.9	157.8	76.2	0

Source: USDA, FSA, *DMC Program Enrollment Information*, accessed August 1, 2022, payments through June 2022.

Note: Percentage share of dairies with established production history and their covered share of production histories.

DMC Adjustments

USDA made key adjustments to DMC following its implementation in 2019. First, the 2018 farm bill directed USDA to begin reporting premium alfalfa hay prices, and USDA's initial feed cost formula contained a 50-50 blend of alfalfa and premium alfalfa prices. In December 2021, FSA changed the formula to 100% premium alfalfa to better reflect producer costs. This resulted in a higher calculated feed cost, lower calculated margins, and higher DMC payments compared with the prior formula. For months when the revised margin would have triggered payments, USDA paid dairy producers the difference in the two margin calculations retroactive to January 2020.

The Consolidated Appropriations Act, 2021 (P.L. 116-260) authorized supplemental DMC payments based on updated producer production histories. If 2019 actual milk marketing volumes exceeded established production histories, producers could receive payments on 75% of the difference. Eligible milk producers must have participated in DMC during 2021 and have actual milk marketings of 5 million pounds or less. For the additional production, producers pay the Tier I premium and may cover this milk for 2021 through 2023.

Other Dairy Provisions

The farm bill also authorized other dairy support. The 2018 farm bill reauthorized the Dairy Forward Pricing Program (DFPP), the Dairy Indemnity Payment Program (DIPP), and part of the Dairy Promotion and Research Program (DPRP), all through FY2023.

DFPP allows milk producers and handlers/processors to negotiate forward contracts for milk delivered for use in Class II (soft products), III (cheese), or IV (butter/powder) products that are pooled in Federal Milk Marketing Orders (FMMO). Class I fluid milk may not be forward contracted. Handlers pay the agreed upon contract price instead of the FMMO calculated minimum producer price.

DIPP makes payments to dairy producers who have to dispose of raw milk because of chemical, radiation, or pesticide contamination. In 2021, DIPP regulations (7 C.F.R. 760) were amended to give USDA the discretion to indemnify producers for the depopulation of cows affected by long-term contamination.

DPRP (dairy checkoff) authorizes a producer-funded generic promotion and research program for dairy products funded by a $0.15/cwt assessment. The provision authorizes the use of funding to develop international markets.

The 2018 farm bill established the Milk Donation Reimbursement Program (MDRP) that reimburses certain costs of fluid milk donations that producers, processors, and cooperatives make to food banks and feeding organizations. The donation program received mandatory funding of $9 million for FY2019 and $5 million annually for FY2020-FY2023. The Dairy Donation Program, which is similar to the MDRP, was created by the Consolidated Appropriations Act, 2021 and funded at $400 million in response to disruptions caused by the COVID-19 pandemic. This program reimburses certain costs for dairy product donations and is authorized through September 1, 2023.

In addition, the 2018 farm bill amended the FMMO formula for the Class I skim milk price. During the pandemic, the change resulted in lower minimum prices milk handlers paid to producers in FMMOs. (See CRS Report R45044, *Federal Milk Marketing Orders: An Overview*). Some dairy stakeholders have suggested that future FMMO price reforms be conducted through the FMMO hearing process.

Dairy Policy in the Next Farm Bill

Compared with MPP, DMC is usually viewed by dairy stakeholders as an improvement in risk protection due to its higher margin and production history coverage options and reduced margin premiums, especially for Tier I production. DMC allows milk producers to manage risk also through participation in Livestock Gross Margin-Dairy and Dairy Revenue Protection insurance programs. Dairy stakeholders noted the effectiveness of DMC in both Senate (September 2021) and House (June 2022) agriculture committee hearings on dairy policy. As milk producers confront rising costs for feed and other inputs, they may look to Congress to evaluate the adequacy of dairy policies.

Dairy stakeholders have suggested the supplemental payment authority for updated production histories be included in a future farm bill. Current production histories are based on production levels from either 2011, 2012, or 2013. Total milk production in 2021 was about 14% higher than the average of these three base years. Until the DMC supplemental was enacted, milk producers were unable use DMC to protect their milk productivity gains.

Congress could review premium rates and margin levels. Some stakeholders may argue the catastrophic $4.00 margin is not high enough or that the highest margin levels need to be raised to provide adequate income support. DMC premium rates favor dairies with 220 or fewer cows. Reduced Tier II premium rates or higher margin levels could lead to increased use of DMC by larger dairies.

An expanded dairy donation program could also be supportive of milk prices. Donations may allow producers to avoid dumping milk under certain circumstances.

A consideration for Congress is that these types of changes could raise the projected cost of a farm bill.

Joel L. Greene, Analyst in Agricultural Policy

IF12202

Disclaimer