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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 support dairy operations. The DMC program replaced the 2014 farm bill's Margin Protection Program (MPP; P.L. 113-79, as amended by P.L. 115-123, the Bipartisan Budget Act of 2018). Prior to 2014, the U.S. Department of Agriculture (USDA) purchased dairy products to support milk prices at certain levels. Many stakeholders believed the support program failed to account for rising feed costs. In 2014, Congress created a margin program to allow milk producers to select a guaranteed margin on milk production. The margin is the difference between the USDA national all milk price and a calculated feed cost, providing producers optional risk protection on price and feed costs.

DMC was to expire on December 31, 2023, but Section 102 of the Further Continuing Appropriations and Other Extensions Act, 2024 (P.L. 118-22, Division B), extended it until December 31, 2024. The extension includes supplemental DMC that was authorized in the 2021 appropriations act (see "DMC Adjustments").

DMC Basics

DMC allows milk producers to buy a guaranteed margin for their milk production. For example, if the margin—all milk price 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 an annual selection. In return, milk producers received a 25% discount on premium costs.

FSA calculates and reports the DMC milk-feed margin each month (**Figure 1**). If margin payments were triggered, producers are paid for a 12th of covered annual milk production history. Payments under DMC are subject to sequestration reductions of 5.7% in 2021-2024.

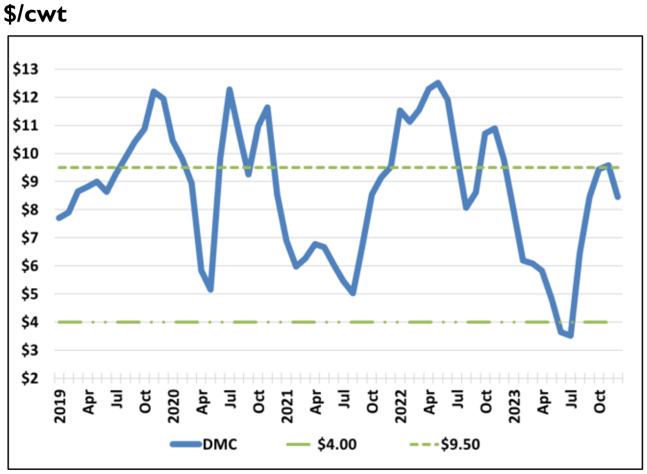
Table 1. DMC Premium Rates, $ per cwt

Margin	Tier I ≤ 5 million lbs.	Tier II > 5 million lbs.
$4.00	$0	$0
$4.50	$0.0025	$0.0025
$5.00	$0.005	$0.005
$5.50	$0.030	$0.100
$6.00	$0.050	$0.310
$6.50	$0.070	$0.650
$7.00	$0.080	$1.107
$7.50	$0.090	$1.413
$8.00	$0.100	$1.813
$8.50	$0.105	NA
$9.00	$0.110	NA
$9.50	$0.150	NA

Source: Agricultural Improvement Act of 2018 (P.L. 115-334).

Since implementation of the DMC program, there have been 60 months of margin calculations, and producers who opted for a $9.50 margin have received payments in 36 months. Producers selecting margin coverage under $9.50 have received payments in some of those months, particularly in 2021 and 2023. Payments on the $4.00 catastrophic margin triggered in June and July 2023 for the first time under DMC. The annual average monthly margin was $9.61 in 2019, $9.45 in 2020, $6.92 in 2021, $10.72 in 2022, and $6.70 in 2023.

Figure 1. DMC Milk-Feed Cost Margins, 2019-2023, $/cwt



Source: USDA, FSA.

Excluding 2020, on average, 72% of dairies with established production history participated in DMC, and

71% of their milk production was covered. During 2019-2023, payments under DMC have totaled nearly $3.3 billion (**Table 2**).

Table 2. Dairies Enrolled in DMC, Covered Production, and Total Payments

	Dairies	%	Billion lbs.	%	$ million
2019	23,495	73.3	178.7	66.4	$451
2020	13,547	45.0	121.3	47.4	$234
2021	19,125	69.0	162.7	68.6	$1,186
2022	17,996	71.2	154.4	71.3	$84
2023	17,101	75.0	154.4	77.0	$1,300

Source: USDA, FSA, DMC Program Enrollment Information, updated February 5, 2024.

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

DMC Adjustments

USDA made key adjustments to DMC following implementation in 2019. First, the 2018 farm bill directed USDA to begin reporting premium alfalfa hay prices. 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 feed formula. USDA paid dairy producers the difference in the two margin calculations retroactive to January 2020 for months margin payments were triggered.

The Consolidated Appropriations Act, 2021 (P.L. 116-260), authorized supplemental DMC payments based on milk marketings in 2019. 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 less than 5 million pounds. For the additional production, producers pay the Tier I premium and may cover this milk for 2021 through 2023.

Other Dairy Provisions

The 2018 farm bill reauthorized the Dairy Forward Pricing Program (DFPP, 7 U.S.C. §8772), the Dairy Indemnity Payment Program (DIPP, 7 U.S.C. §4553), and a provision in the Dairy Promotion and Research Program (DPRP, 7 U.S.C. §4504).

DFPP allows milk producers and milk handlers/processors to negotiate forward contracts for milk used in Class II (soft products), Class III (cheese), or Class IV (butter/powder) products that are pooled on 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 blend 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.

The DPRP provision reauthorizes the use of funding to develop international markets in the generic promotion and research program (dairy checkoff) that is producer-funded by a $0.15/cwt assessment on milk production.

The 2018 farm bill established the Milk Donation Reimbursement Program (MDRP) to pay 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 reimbursed certain costs for dairy product donations and was authorized through September 1, 2023.

Unlike the 2014 farm bill, milk producers using DMC also are allowed to participate in Livestock Gross Margin-Dairy and Dairy Revenue Protection insurance programs.

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 asked that the old formula be restored.

Dairy Policy in the Next Farm Bill

DMC is usually viewed favorably by dairy stakeholders as an improvement in risk protection, especially for Tier I production. Dairy stakeholders noted the effectiveness of DMC in both House (June 2022) and Senate (May 2023) 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 2011, 2012, or 2013. Total milk production in 2023 was about 14% higher than the average of these three base years. Until the DMC supplemental was enacted, milk producers were unable to use DMC to protect milk productivity gains.

Some stakeholders may argue the catastrophic $4.00 margin is not high enough or that the top margin level needs 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.

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