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Changes to Dairy Provisions in the 2018 Farm Bill

The Agriculture Improvement Act of 2018 (the Farm Bill’s official name) was signed by the President on December 20. In this article we discuss several important changes to federal dairy programs as a result of the 2018 Farm Bill.

Dairy Risk Management Programs

The most significant changes in the 2018 Farm Bill, and the ones which will affect farmers most directly, are those to the USDA risk management programs. Producers will now have three programs to choose from:

1. The new Dairy Margin Coverage (DMC) which replaces the Margin Protection Program (MPP)
2. Livestock Gross Margin – Dairy (LGM)
3. Dairy Revenue Protection (DRP)

DMC is available through the USDA Farm Service Agency, and LGM and DRP are available through crop insurance agencies, such as Crop Growers, LLP.

LGM and DRP remain in place and are not altered by the 2018 Farm Bill. However, a significant change is that producers can now elect to participate in the DMC program and LGM or DRP, if they choose. Previously, producers could not participate in both programs simultaneously.

Changes to the programs

There are a number of changes from the old MPP program to the new DMC. Just as with MPP, producers who choose to participate make two basic decisions: 1) How much milk to cover, and 2) the level of margin they want to insure. However, both of these decisions now come with more options, and the likelihood of positive payouts have increased under some scenarios.

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The first change is that farmers can now ensure up to a $9.50/cwt margin rather than the original maximum of $8.00. Second, farmers can now choose to ensure any amount of their adjusted production history from five to 95 percent.

The DMC program continues the structure of two premium tiers: one for the first five million pounds of milk marketed and a second for milk production levels above that. Tier I premiums are significantly below those of the original MPP program. Tier 2 premiums remain significantly higher. However, DMC has a provision where if farmers elect coverage of $8.50 or higher, they may choose to select a different coverage level in tier 2.

Larger producers with volume that exceeds five million pounds can now choose to take advantage of the expanded coverage up to $9.50 at the favorable tier 1 premiums. For production levels above five million pounds of milk, large producers can then opt for a lower coverage for their additional milk, thus managing their tier 2 premium costs.

Table 1. Premiums for Dairy Margin Programs, exclusive of $100 administrative fee (Dollars per cwt)

Coverage Level Threshold	Tier 1 MPP-Dairy, 2016-2017	Tier 1 MPP-Dairy, 2018	Tier 2 MPP-Dairy	Tier 1 DMC	Tier 2 DMC
Qualifying production	4M lbs. or less	5M lbs. or less	above 5M lbs.	5M lbs. or less	above 5M lbs.
$ 4.00	$ -	$ -	$ -	$ -	$ -
$ 4.50	$ 0.0080	$ -	$ 0.0200	$ 0.0025	$ 0.0025
$ 5.00	$ 0.0190	$ -	$ 0.0400	$ 0.0050	$ 0.0050
$ 5.50	$ 0.0300	$ 0.0090	$ 0.1000	$ 0.0300	$ 0.1000
$ 6.00	$ 0.0410	$ 0.0160	$ 0.1550	$ 0.0500	$ 0.3100
$ 6.50	$ 0.0680	$ 0.0400	$ 0.2900	$ 0.0700	$ 0.6500
$ 7.00	$ 0.1630	$ 0.0630	$ 0.8300	$ 0.0800	$ 1.1070
$ 7.50	$ 0.2250	$ 0.0870	$ 1.0300	$ 0.0900	$ 1.4130
$ 8.00	$ 0.4750	$ 0.1420	$ 1.3600	$ 0.1000	$ 1.8130
$ 8.50	N/A	N/A	N/A	$ 0.1050	N/A
$ 9.00	N/A	N/A	N/A	$ 0.1100	N/A
$ 9.50	N/A	N/A	N/A	$ 0.1500	N/A

Table 1: "Dairy Margin Coverage – The New Margin Protection Plan for Dairy Producers," Briefing Paper 18-2, December 11, 2018, by Andrew M. Novakovic and Mark Stephenson

One of the reasons why many producers were disappointed in the Margin Protection Program was that producer margins seemed to hover at roughly $8.00/cwt. This margin was low enough to cause economic hardship, but not low enough to trigger payments. Although future margins can't be predicted with certainty, it is clear that the increase in coverage levels from $8.00 to a maximum of $9.50 will make the DMC much more likely to issue payments. Considering the past five years, a $9.50 level of coverage would trigger a payment roughly two-thirds of the time, and net benefits (payments less premiums) would be significantly positive at the premium levels below five million lbs.

Refund Provision

The 2018 Farm Bill included an MPP refund provision. Farmers who had previously participated in MPP and had net premiums (premiums exceeding payouts) can take 75 percent of that net premium value as a credit towards DMC premiums or receive 50 percent of their premiums as a cash refund.

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Federal Milk Marketing Order Class I Pricing

The 2018 Farm Bill also contained changes in how Federal Milk Marketing Order prices are set. Federal Milk Marketing Orders set minimum prices that processors must pay farmers for their milk. Four product classes exist, each with its own minimum price.

Class I, fluid milk;

Class II, soft, high-moisture cheeses, such as cottage cheese, frozen desserts, sour cream, yogurt, puddings and infant formula;

Class III, most spreadable and hard cheeses; and

Class IV, butter, powder, evaporated and condensed milk

Only classes III and IV are traded on the Chicago Mercantile Exchange. This complicates hedging strategies since class I pricing has been based on the higher of class III or IV pricing. Therefore, farmers trying to hedge their milk price wouldn't know whether the class I milk price would be driven primarily by class III or IV in the future.

To address this issue, Federal Order pricing provisions have been amended to change the class I price mover to the average of the monthly class III and IV prices, rather than the higher of the two. To compensate for the fact that this average will always be lower than the higher of the two, an adjustment factor of $0.74 per hundredweight (cwt) will be added to the average of the two classes.

The exact impact this change will have on farm milk prices is dependent on the relative value of Class III and Class IV milk going forward, but the intent is that these slight adjustments to the farm price will make hedging strategies easier. The USDA has until the end of March 2019 to implement this change.

Dairy Donation Programs

The 2014 Farm Bill included a provision for the USDA to purchase dairy products for donation to public and private food assistance organizations if the Actual Dairy Producer Margin (ADPM) fell below $4.00/cwt for two consecutive months or more. This provision remains in effect, but has not come close to kicking in since it was passed.

The new farm bill includes a milk donation program to incentivize dairy processors to make donations. Previously, donations of fluid milk would have been paid for at the class I price, which made it cheaper for processors to dump milk rather than packaging and donating it.

Under the new donation program, processors have the opportunity to be reimbursed for a portion of costs incurred for donating consumer-packaged fluid milk. The reimbursement is based on the difference between the class I price and the lower of class III or IV prices for the applicable month. The milk would remain pooled at the class I price and would not affect the farm blend price. Up to $5 million per year is authorized for this program.

The Take-away

The 2018 Farm Bill contains several provisions that affect Northeast dairy producers. There are, of course, many more details than can be provided in this brief summary. For more on the expanded risk management options, visit DairyMarkets.org and see their briefing paper. You may also wish to consult with your local Farm Service Agency office or Crop Growers agent.

Much of the information contained in this article is summarized from: "Dairy Margin Coverage – The New Margin Protection Plan for Dairy Producers," Briefing Paper 18-2, December 11, 2018, by Andrew M. Novakovic and Mark Stephenson.

Becoming an "Employer of Choice" in Today's Job Market

We've all seen the headlines about falling unemployment. In today's tight job market, many agricultural employers are facing challenges sourcing and hiring employees. Yet hiring isn't the only area of importance; perhaps even more important is **holding on to the good ones you've got**. If you lose a good employee, what are the odds that you find a replacement that's a better fit?

Farming, fishing and forestry are not easy occupations, and owners are often being pulled from all sides to "put out fires" and deal with problems. But how many of us focus on "catching people doing things right," celebrating success and appreciating our team? We often focus on the problems, and neglect to acknowledge when things go right, but that is the precise opportunity to manage your staff in a positive, constructive manner.

With the current economy's demand for good employees exceeding supply, it's up to you to become an "employer of choice" and make your business a great place to work. Here are a few tips to becoming that employer of choice.

1. **People want to be on a winning team, and feel like they are making a contribution.** Celebrate successes – even small ones. The current market is stressful, and prices may not be what we would like, but you can always find some positive things occurring in your business. Think about how you interact with employees. If you're spending more time addressing people "doing things wrong" rather than "doing things right," maybe it's time to refocus.

2. **Get to know – and genuinely care about – all your employees.** You may know your key managers well, but do you really know all your front-line employees? When people are treated as replaceable cogs in the wheel, the result is high turnover. Making people feel like they are appreciated and part of the organization is essential to retention. Replacing even an entry-level position is not only work, there's time and expense involved in employee turnover.

   All of your employees should feel comfortable coming to you with a concern, question or idea. You may find that some of the best ideas come to you from front-line employees. If they speak a foreign language, try learning a few words in their native tongue. In some situations, a bilingual staff member to help translate can go a long way. The key to a successful organization is treating everyone like they matter.

3. **Set people up for success.** Too often, people are set up to fail. They are given inadequate training and direction, and then criticized when things don't work out. Instead, set them up for success and recognize success when it occurs. Provide good organization, training and direction. Give them the resources and tools they need. Your best people really want to do a good job and may leave if they are not given that opportunity.

4. **Recognize and challenge your key employees.** Some employees are content where they are, and do not want additional responsibility. But many (including your best people) will want to grow and advance. Does a laborer on your team have the potential to become a foreman? Maybe a shop technician would like to take a welding class. There may also be a task on your plate that could be delegated to one of your staff and serve as a growth opportunity. Whatever level they may be, show employees that their position is more than just a job, but a career path that will allow them to develop their skills.

Even with your best efforts, it may be inevitable that you lose a great employee. In the meantime, you had an excellent person and your business benefitted from their presence. While some employees may take the next

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step in their career, the point is to continuously invest in their growth; if they can't grow at your business, they will somewhere else.

5. **Develop positive leaders at all levels.** As your business grows, you will no longer be directly supervising every employee. It's not enough for you alone to be a "great boss" – everyone in a leadership position at your company needs to be as well. A toxic supervisor at the field level can wreak havoc, create turnover and lead to poor results. People don't usually quit because of top management, they quit because they don't see eye-to-eye with their immediate supervisor. Developing positive, encouraging leadership throughout your organization can be a key to success and functioning as a high-performing team.

You may have gotten into farming, fishing or forest products because you were good at it, and you had a passion for it. But as your business grows, you will find that success requires more than just good technical skills – it requires great people skills. More and more, your role is about leading and developing your people and that may require you to develop some new skills. Some business owners worry about investing time and money into training employees only to have them leave, but think of the alternative – not investing in them and having them stay!

Steps 1-5 may be easier said than done, but they are essential to building a successful business. In today's economy, help is scarce at all skill and experience levels. Becoming an "employer of choice" is not just a best practice or something to aspire to, it's essential in today's environment. If you don't transform your business into one, you'll be competing for staff with a business that is.

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