

The Milkweed



Dairy's best information and insights

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Dairy Producers' 2015 DMPP "Cost-Benefit Ratio" About 100:1

by Pete Hardin

In 2015, U.S. dairy farmers participating in USDA's new "safety net" margin insurance program have paid \$73,000,000 in premiums. But USDA currently estimates pay-outs from this goofy program will be only \$704,000. That's a lop-sided cost/benefit ratio of slightly worse than 100:1. In other words, for every dollar of insurance premiums paid by Dairy Margin Protection Program (DMPP) participants, farmers received less than a penny in pay-backs. Only slightly more than one percent of 24,502 dairy farmers who signed up for the 2015 DMPP have received any payments.

Sign-ups for the 2016 DMPP program are due by November 20. Premiums for next year are going up by "20-something" percent! Why is the National Milk Producers Federation claiming that DMPP is working "exactly as intended?"

What's an intelligent dairy farmer supposed to think?

Is USDA's newly-installed Dairy Margin Protection Program (DMPP) a "safety net" to cushion dairy farmers' net income when times are tough? (A USDA spokesperson, quoted elsewhere in this article, compares DMPP to automobile insurance. Insured auto owners pay premiums so that they have coverage in the event of a catastrophe. If the pay-outs are never needed, that logic goes, that's good. No disaster, apparently.)

Or is DMPP a USDA scam, vacuuming up money from program participants while paying out peanuts? Pass the peanuts, please. With an estimated \$73 million in producer premiums and only \$700,000 in pay-outs from the DMPP program, the "cost-benefit" ratio for 2015 is worse than 100:1. In other words, for every dollar paid in DMPP premiums by dairy farmers, the pay-back has been just less than a penny. And for U.S. dairy farmers, 2015 threatens to be a red-ink bath. 2015's low net returns for milk producers are a particularly bitter pill, following 2014's spectacularly high farm milk prices.

The Milkweed has unearthed 2015's lop-sided DMPP premiums and pay-outs from USDA's Farm Services Agency (FSA). This information comes just as the "usual suspects" (extension agents and university economists) are reminding dairy farmers they have until November 20, 2015 to sign up for next year's DMPP program. The 2015 program might be viewed as a "bait-and-switch" deal. The first year's premiums were perhaps set low, to entice producers into the DMPP program. For 2016, a hefty premium increase awaits – increases on a sliding scale that defies all logic, even for a government program! Using the Dairy Markets.org decision tool, here are the 2016 percentage increases for the various levels of protection (90% coverage, rounded down to nearest percent):

| | |
|--------|----------------|
| \$4.00 |no change |
| \$4.50 |up 12% |
| \$5.00 |up 20% |
| \$5.50 |up 23% |
| \$6.00 |up 24% |
| \$6.50 |up 25% |
| \$7.00 |up 26% |
| \$7.50 |up 27% |
| \$8.00 |up 3%* |

*The premium from the \$7.50 to \$8.00 level nearly doubled in the 2015 rates so this brings things into slightly better balance-What a Deal!

Criticisms of the DMPP program to date include the fact that the measure of producer income – USDA's "All-Milk Price" is not an accurate measure of dairy producer income. As has been detailed in prior months' issue, *The Milkweed* has demonstrated that the monthly "All-Milk Price" measures virtually zero marketing deductions extracted from

dairy producers' monthly gross income. Deducts such as milk hauling, stop charges, co-op dues and reblends ... even USDA's mandatory \$.15/cwt. promotion check-off ... are not subtracted from milk income estimates. Compared to prior years, 2015's monthly "All-Milk Prices" were even further off-base than prior years. That's because many dairy farmers suffered significant deductions from their milk checks for marketing losses "shared" by their cooperatives. (Admittedly, late 2014 and early 2015 were very tough times for farm milk and dairy commodity marketers.)

USDA hounding delinquent producers

The USDA is trying to clamp down on 2015 DMPP participants who haven't paid their remaining premiums. According to USDA data, 304 DMPP participants are delinquent in 2015 payments. Those producers owe USDA a total of \$1,240,108.

One of those DMPP delinquents is John Rahm, a dairymen who milks 40 Jerseys near Versailles, Ohio. Rahm was one of only two dairy producers in Darke County, Ohio to sign up for the 2015 DMPP program beyond the basic \$4.00 level. Rahm bought in at the \$7.50cwt margin coverage. Increasing the coverage from \$7.50 to \$8.00 doubled the premium! On general principle, Rahm refused to pay the remainder of his 2015 obligations – something unprintable having to do with bull, he claims. "With normal insurance, nonpayment of premiums results in cancellation of coverage, but I have been told that this is a valid federal debt" Rahm says.

Rahm is receiving collection letters. A September 2, 2015 letter from his County FSA office noted, in part:

"If the debt(s) is not resolved, this Agency reserves the right to use all additional collection actions available to collect the debt(s). The debt(s) may be collected by internal administrative offset from any CCC or FSA payments that may be due to you. Additional actions that may be taken to recover the debt(s) include the assessment of late payment interest, administrative costs, and penalties; administrative wage garnishment, collecting the debt(s) by offset of eligible federal and state payments, including any income tax refunds reporting the debt(s) to credit bureaus; referring the debt(s) to private collection agencies, and debt collection centers; referring the debt(s) for litigation (if collection administratively is unsuccessful); and reporting the debt(s) to the Internal Revenue Service if the debt(s) or any portion of the debt(s) is discharged. Once your debt(s) are more than 180 days delinquent, we are required to refer the debt(s) to the Department of the Treasury for collection and additional fees will be assessed."

Rahm sarcastically jokes that he isn't too worried about his 2015 income tax refund being impounded to cover this debt, what with the cost-price squeeze facing dairy farmers like himself.



Some of the shiniest milk-hauling rigs in the country are operated by the Obreza family of Mohawk, New York. In this issue, we profile Richard Obreza Trucking, Inc. President Matt Obreza provides an informative profile of the firm. (See pages 8-9.) The unit in the picture is a 2014 Peterbilt Model 579 Tractor pulling a 2013 Tremcar two compartment farm pick up trailer.

Questions/Answers from USDA

The following question-and-answer format is derived from an email response to the USDA by New York dairy writer Nate Wilson:

Question: What is the current national enrollment in the dairy margin protection program?

Answer: For 2015 national enrollment was 24,766. Enrollment for 2015 is still ongoing through November 20, 2015, therefore final numbers are not yet available.

Question: To date, how much has been paid by milk producers, into the program?

Answer: For 2015, \$72,869,315. Enrollment for 2015 is still ongoing through November 20, 2015, therefore final numbers are not yet available.

Question: 2015, year to date, how much in total payments have been sent to participating dairymen?

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White House Politics Behind the Brazil Beef Imports Decision

by Pete Hardin

Multiple conversations with beef industry sources during the past several weeks have explored the subject of what motivated the Obama administration to allow imports of beef from Foot-and-Mouth Disease-infected Brazil.

Bottom line: White House political pressures drove USDA's approval for importing beef from FMD-infected Brazil ... and probably from FMD-infected Argentina, also.

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Answer: \$706,420.

Question: Does USDA anticipate federal Budget Reconciliation problems interfering with potential 2016 payments?

Answer: No.

Question: What is current delinquency level?

Answer: \$1,240,108 for 304 dairy operations.

Budget-balancing decreased 7.6%

In 2015, the few payments to dairy producers from the DMPP program were reduced by 7.6% due to federal government budget-balancing games. FSA's website reads:

“Payments under the Margin Protection Program for Dairy Producers (MPP-Dairy) may be reduced by a certain percentage due to a sequester order required Congress and issued pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985.

“Should a payment reduction be necessary, FSA will reduce the payment by the required amount.”

DMPP was only one of a few USDA programs in which producer payments suffered these percents of deducts.

A penny for your thoughts

(Editor's note: Thus, the 2015 DMPP delinquent premiums are about 170% of the DMPP pay-out rates.)

The DMPP was hailed as a wonderful new “safety net” program for protecting dairy farmers' incomes. Many other dairy farmers think otherwise. Sign-ups for the 2016 DMPP are so slow that USDA bumped back the final sign-up date to November 20, 2015. USDA blamed crop harvest season for slow dairy farmer sign-ups for the 2016 DMPP.

The 2015 DMPP pay-out calculations are determined in two-month segments. So far in 2015, only 264 U.S. dairy producers have received *any* payments from DMPP. Those 264 were the only dairy producers who signed up for the maximum \$8.00/cwt. coverage levels. And for at least two of those two-month segments, the DMPP pay-outs were microscopic. Here's a breakdown of the 2015 DMPP payment periods to date:

| Period | Margin \$ | Pay-Out (\$cwt.) |
|------------|-----------|------------------|
| Jan-Feb. | \$7.99554 | \$0.00446 |
| Mar.-April | \$7.50415 | \$0.49585 |
| May-June | \$7.99534 | \$0.00466 |
| July-Aug. | \$7.69150 | \$0.30850 |

So far in 2015, none of the 24,502 dairy farmers who signed up for the DMPP program at levels below the \$8.00/cwt. maximum coverage have received a single penny. **Stated another way: 98.94% of DMPP's 2015 program participants have received ZILCH.**

One subscriber to *The Milkweed* told how, in late 2014 when he signed up for the DMPP, the manager at the county Farm Services Agency told him that the DMPP was, “the dumbest farm program she'd ever seen.” Amen.

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Oct. 2015 Class III Price at \$15.46/Class IV Hits \$16.43

by Pete Hardin

Tumbling Cheddar prices and a resurgence in butter prices pushed Class III (cheese) and Class IV (butter-powder) prices in opposite directions during this past October, compared to the September class prices.

For the full story, subscribe to *The Milkweed*.

| PRICES PER POUND | August '15 | September '15 | October '15 | September-October Difference |
|------------------|------------|---------------|-------------|------------------------------|
| Butter | \$2.0438 | | | |
| Nonfat Dry Milk | 0.7443 | | | |
| Cheddar Cheese | 1.7386 | | | |
| Dry Whey | 0.3108 | | | |