Further Analysis of Foundation for the Future's Market Stabilization and Margin Insurance Programs

(from a common sense point of view)

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as a resource for the Dairy Policy Action Coalition (DPAC)

The following analysis has been prepared for the express purpose of calling attention to some cracks in "National Milk's Foundation… for the Future". The first part of this study of Foundation for the Future" (FFTF) will investigate the Market Stabilization Program along with a report done by the Food and Agricultural Policy Research Institute (FAPRI) at the University of Missouri. The second part takes a closer look at the Margin Insurance Program and how it would have affected our nation's economy over the past ten years. By the end of this investigation, it will be evident that the Market Stabilization and Margin Insurance Programs have serious program flaws that will hamper future growth to the Dairy Industry and be a liability to the US economy in general.

Dairy Market Stabilization Program

The following are two of the four key principles, listed in FFTF that guided its development:

> Allow for production growth. The program is intended solely to intervene in the market to address temporary imbalances between supply and demand. The program will send clear economic signals to producers that there is an imbalance in the marketplace. (From page 35 of Foundation for the Future, August 2011 release)
>
> Reduce margin volatility. The program's ultimate objective is to restore balance between supply and demand in the marketplace for milk. By encouraging producers to lower their milk marketings at appropriate times, prices should rise, thus improving margins. (From page 35 of Foundation for the Future, August 2011 release)

Consider these two principles along with the findings from FAPRI's report on FFTF, named "The Economic Impact of the Dairy Market Stabilization Program on 2009 Dairy Markets". The findings in FAPRI's report are very positive for the Market Stabilization Program, but I do not wish to dwell on the report itself. However, I would like to focus on the Appendix Table 1. (Posted separately from the actual report on their website) as proof that the Market Stabilization Program neglected to hold up both of these principles when tested with real world data from 2009.

The Appendix Table from FAPRI's report is shown on the next page, to see the entire report and its findings, it can be found at:
http://www.fapri.missouri.edu/outreach/publications/2011/FAPRI_MU_Report_04_11.pdf

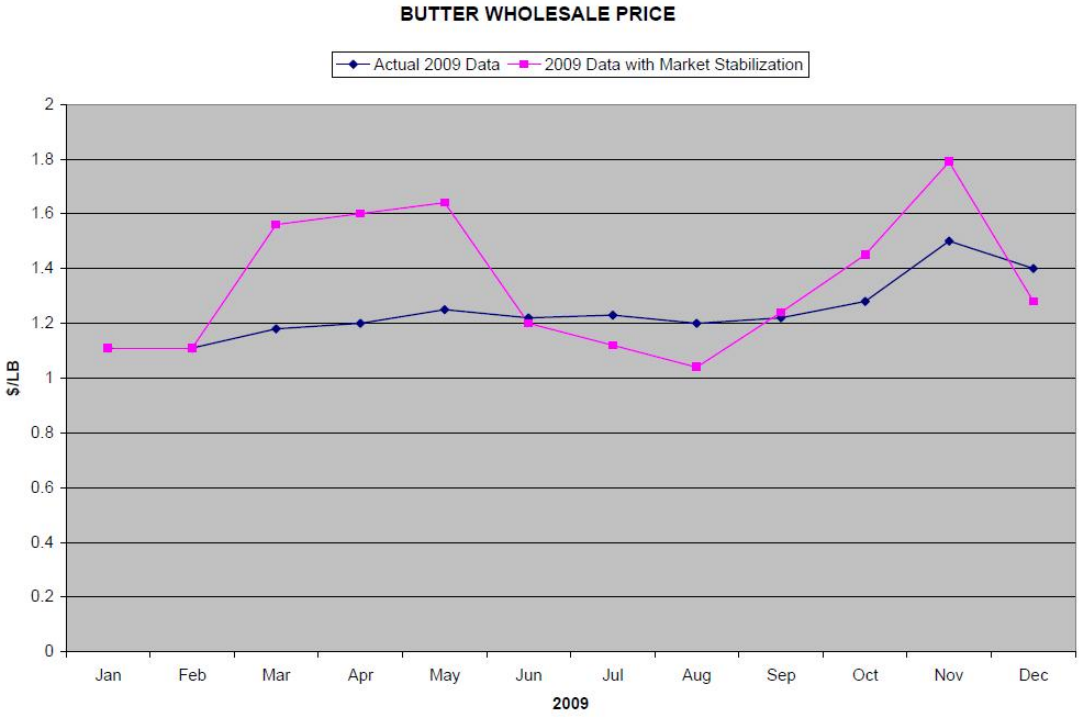
Appendix Table 1. Effects of DMSP on 2009 Dairy Product Markets

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
Cheese Wholesale Price						(Dollars per Pound)							
Baseline	1.08	1.22	1.25	1.20	1.14	1.14	1.15	1.35	1.33	1.47	1.58	1.65	1.30
Scenario	1.08	1.22	1.71	1.75	1.84	1.64	1.50	1.48	1.41	1.76	2.04	1.75	1.60
Change	0.00	0.00	0.46	0.54	0.70	0.50	0.35	0.13	0.08	0.29	0.46	0.10	0.30
Butter Wholesale Price													
Baseline	1.11	1.11	1.18	1.20	1.25	1.22	1.23	1.20	1.22	1.28	1.50	1.40	1.24
Scenario	1.11	1.11	1.56	1.60	1.64	1.20	1.12	1.04	1.24	1.45	1.79	1.28	1.34
Change	0.00	0.00	0.39	0.39	0.39	-0.03	-0.12	-0.16	0.02	0.16	0.29	-0.12	0.10
Nonfat Dry Milk Wholesale Price													
Baseline	0.85	0.83	0.84	0.86	0.87	0.90	0.91	0.95	1.02	1.23	1.30	1.37	0.99
Scenario	0.85	0.83	1.31	1.10	1.02	0.80	0.80	0.80	1.02	1.31	1.38	1.01	1.02
Change	0.00	0.00	0.47	0.24	0.15	-0.10	-0.11	-0.15	0.00	0.08	0.08	-0.35	0.03
Class III Price						(Dollars per Cwt)							
Baseline	10.78	9.31	10.44	10.78	9.84	9.97	9.97	11.20	12.11	12.82	14.08	14.98	11.36
Scenario	10.78	9.31	12.75	15.79	15.99	15.84	14.04	13.45	13.09	14.61	17.77	17.72	14.26
Change	0.00	0.00	2.31	5.01	6.15	5.87	4.07	2.25	0.98	1.79	3.69	2.74	2.91
Class IV Price													
Baseline	9.59	9.45	9.64	9.82	10.14	10.22	10.15	10.38	11.15	11.86	13.25	15.01	10.89
Scenario	9.59	9.45	12.48	14.52	13.45	11.19	9.31	9.04	10.22	12.62	14.92	14.23	11.75
Change	0.00	0.00	2.84	4.70	3.31	0.97	-0.84	-1.34	-0.93	0.76	1.67	-0.78	0.86
U.S. All Milk Price													
Baseline	13.30	11.60	11.70	11.90	11.60	11.30	11.30	12.10	13.00	14.30	15.40	16.50	12.83
Scenario	13.30	11.60	13.19	15.83	16.40	15.10	13.47	13.04	13.31	15.12	17.52	18.19	14.67
Change	0.00	0.00	1.49	3.92	4.79	3.79	2.17	0.94	0.31	0.82	2.12	1.69	1.84
Butter Exports						(Millon Pounds)							
Baseline	2.63	2.69	2.12	2.44	3.19	2.52	1.18	1.49	4.78	7.97	10.69	7.75	49.45
Scenario	2.63	2.69	1.83	1.99	2.66	2.26	1.12	1.58	4.81	7.87	10.43	7.70	47.58
Change	0.00	0.00	-0.29	-0.45	-0.53	-0.26	-0.05	0.09	0.03	-0.10	-0.27	-0.06	-1.87
American Cheese Exports													
Baseline	5.20	4.91	5.07	4.68	5.08	6.17	5.51	5.88	5.34	5.47	5.88	7.78	66.98
Scenario	5.20	4.91	4.80	4.30	4.58	5.75	5.20	5.73	5.26	5.29	5.57	7.65	64.23
Change	0.00	0.00	-0.28	-0.39	-0.51	-0.42	-0.30	-0.15	-0.08	-0.19	-0.31	-0.13	-2.75
Nonfat Dry Milk Exports													
Baseline	48.36	27.84	34.68	39.64	44.66	44.95	62.11	62.61	43.60	64.54	43.70	31.89	548.57
Scenario	48.36	27.84	21.70	23.46	28.61	35.78	58.19	63.73	44.34	62.81	40.14	38.81	493.77
Change	0.00	0.00	-12.97	-16.18	-16.05	-9.17	-3.92	1.12	0.74	-1.73	-3.56	6.92	-54.81

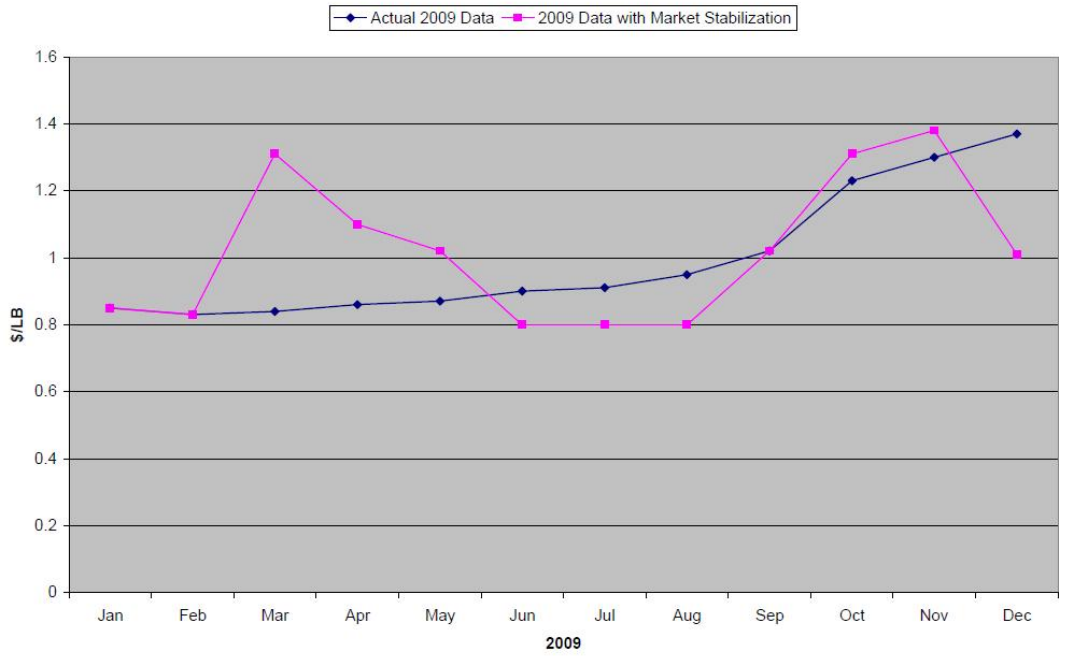
When examining the data on this table, note that **Baseline** is the actual data from 2009, **Scenario** is if the market Stabilization Program had been in effect, and **Change** is net effect from the Baseline to the Scenario.

FAPRI-MU Report #04-11 - Published by FAPRI–MU, 101 Park DeVille Drive, Suite E; Columbia, MO 65203 in March 2011.
FAPRI–MU is part of the College of Agriculture, Food and Natural Resources (CAFNR).
http://www.fapri.missouri.edu/outreach/publications/2011/FAPRI_MU_Report_04_11_Appendix.pdf

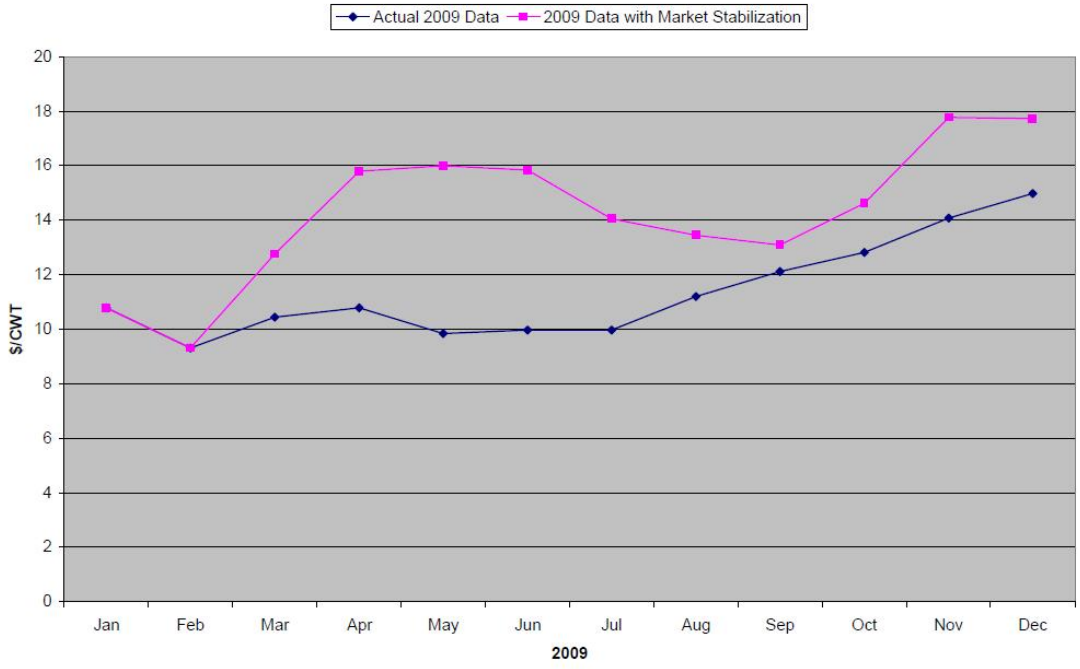
I am arguing that Market Stabilization will fail to Reduce margin volatility. The following charts are visual representation of the data from the appendix of FAPRI's study.



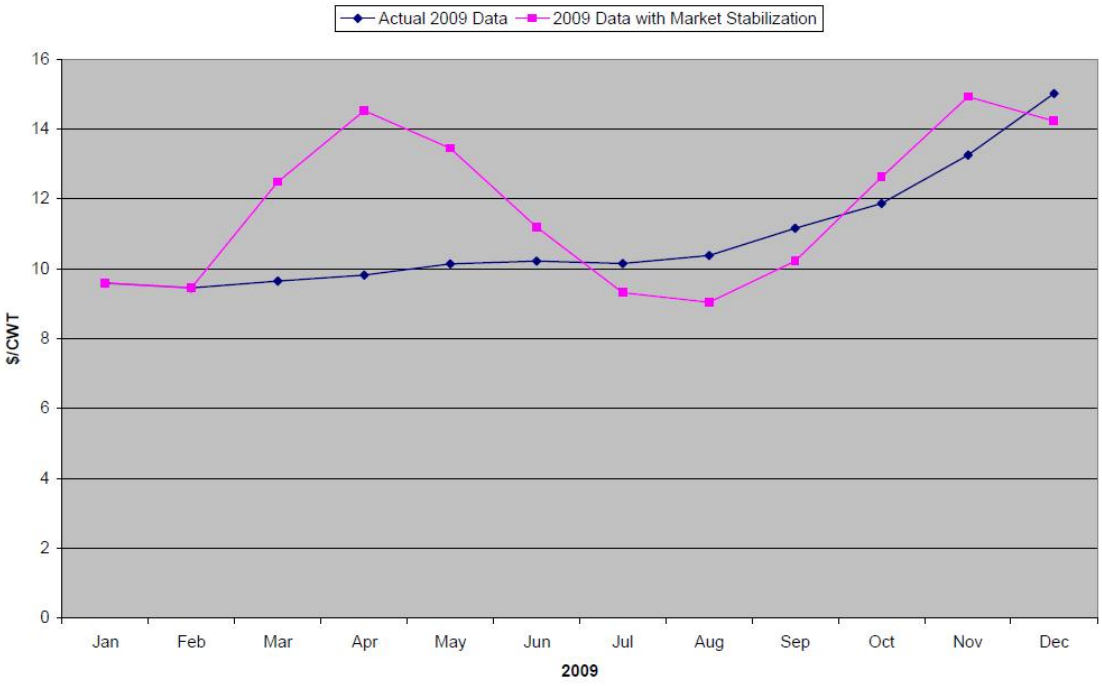
NONFAT DRY MILK WHOLESALE PRICE



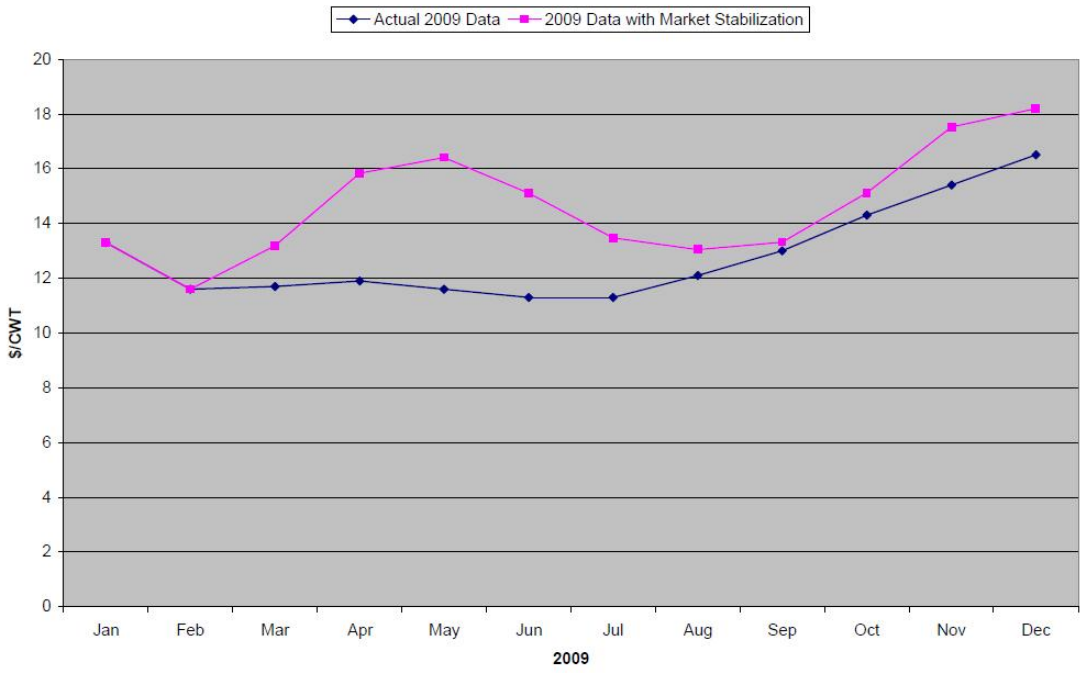
CLASS 3 PRICE



CLASS 4 PRICE

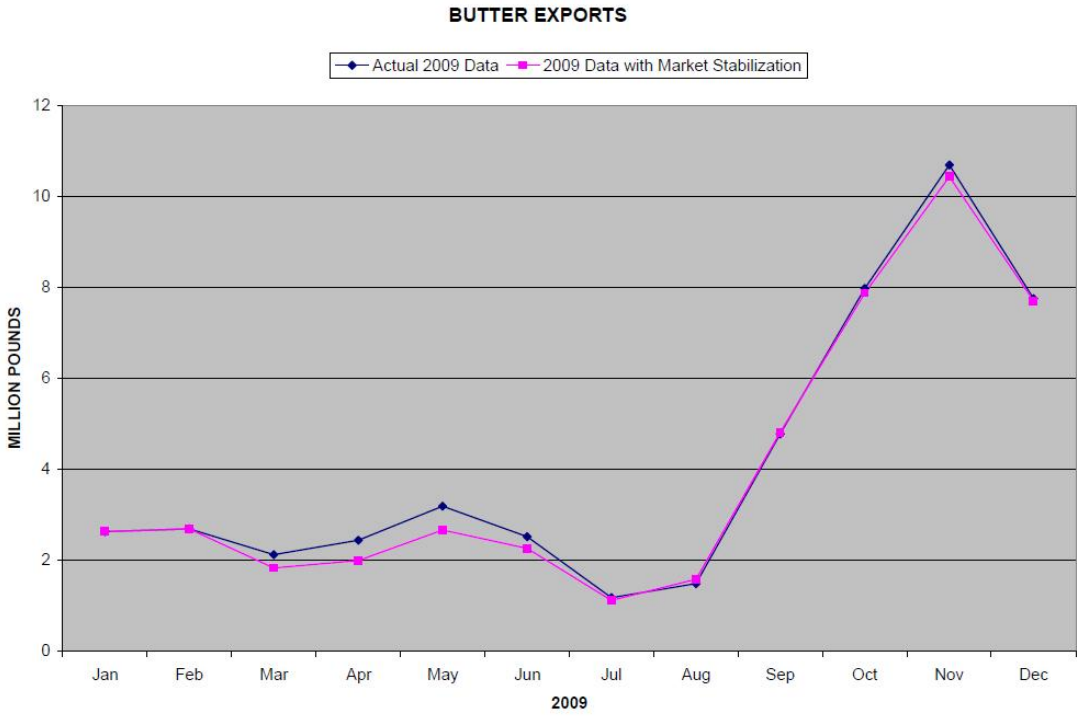


US ALL MILK PRICE

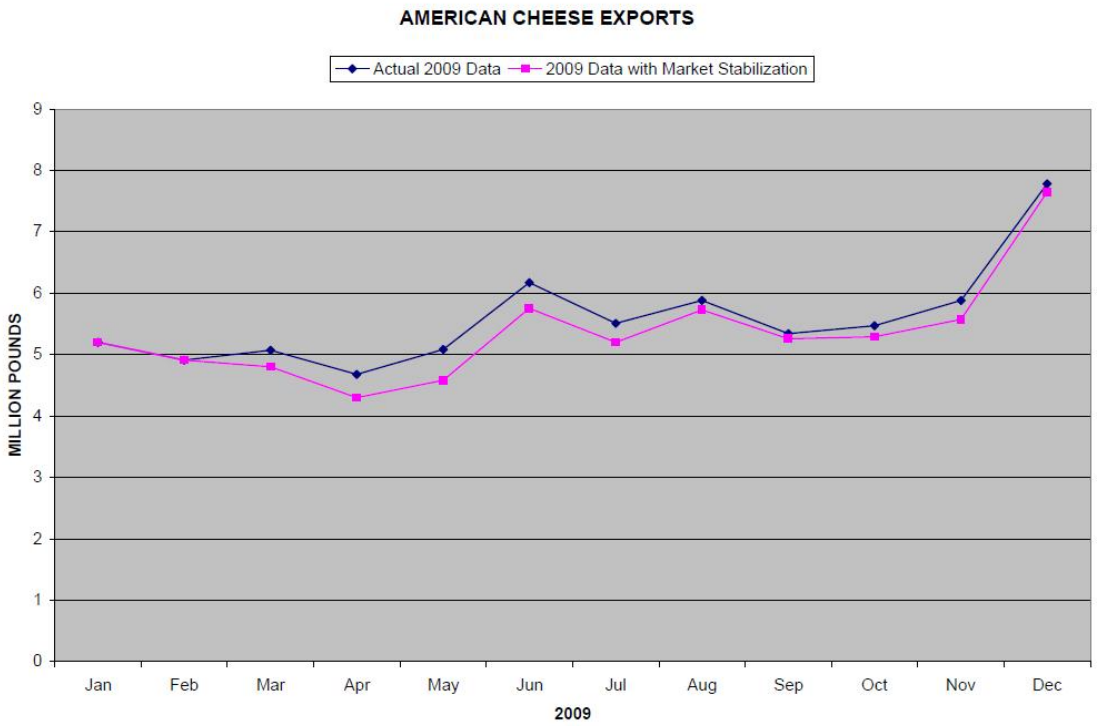


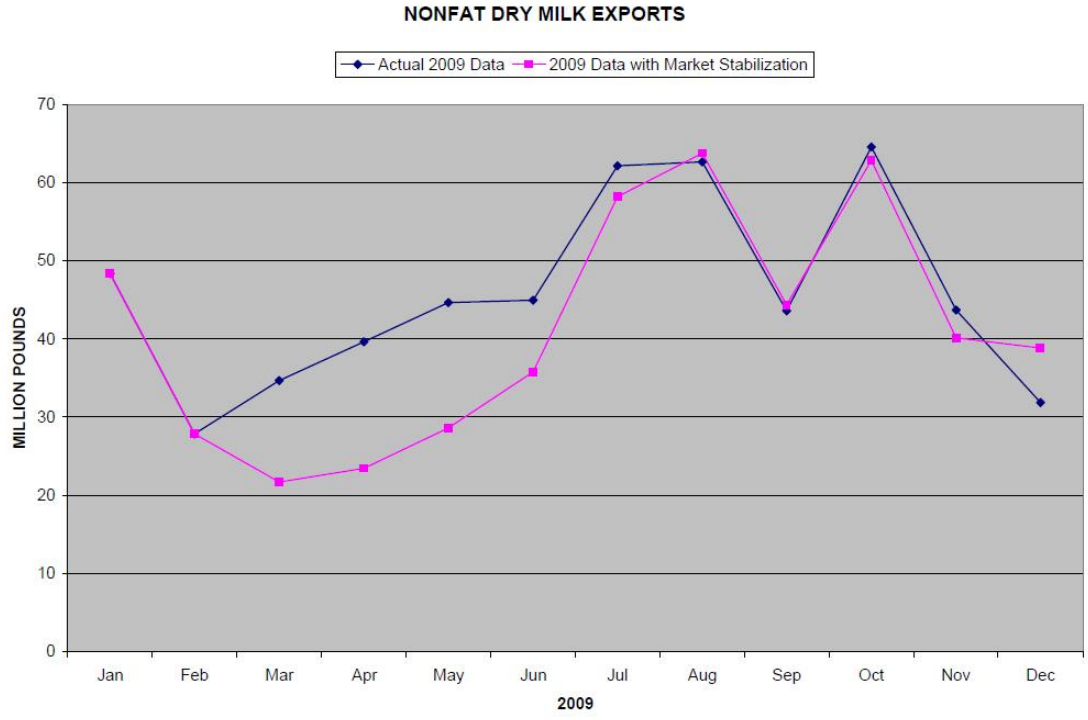
The charts listed above display prices for different commodities with actual 2009 data and 2009 data with the Market Stabilization Program. You can see in each of the charts listed above that the pink line, representing 2009 data with the Market Stabilization program, actually has greater and more frequent swings than the blue line, representing actual 2009 data. Once again, this data was generated by FAPRI's study and it shows that the Market Stabilization Program **fails** to Reduce margin volatility.

I am also arguing that Market Stabilization **will fail** to Allow for production growth. The Appendix Table above shows a negative change when Market Stabilization was introduced to 2009's data for Butter, American Cheese, and Nonfat Dry Milk Exports and the following charts make it clear to see this fact.

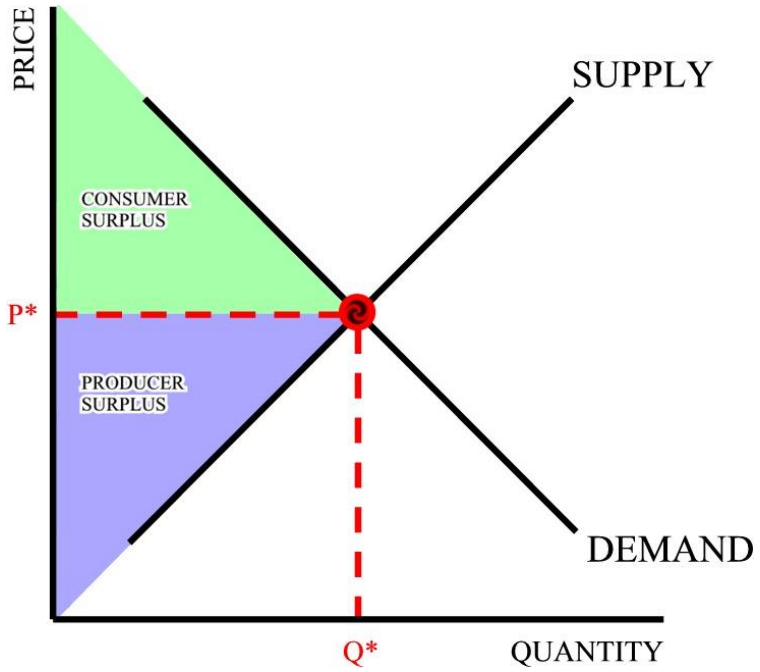


In the above graph and the two following (displayed on the next page), the blue line represents the actual 2009 data, and the pink line represents 2009 data with the Market Stabilization Program. As a result of Market Stabilization in 2009 US exports of Butter, American Cheese, and Nonfat Dry Milk would have all declined based on data generated from FAPRI's study and the Market Stabilization program **fails** to Allow for production growth.


AMERICAN CHEESE EXPORTS
Actual 2009 Data
2009 Data with Market Stabilization
MILLION POUNDS
0
1
2
3
4
5
6
7
8
9
Jan
Feb
Mar
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec
2009

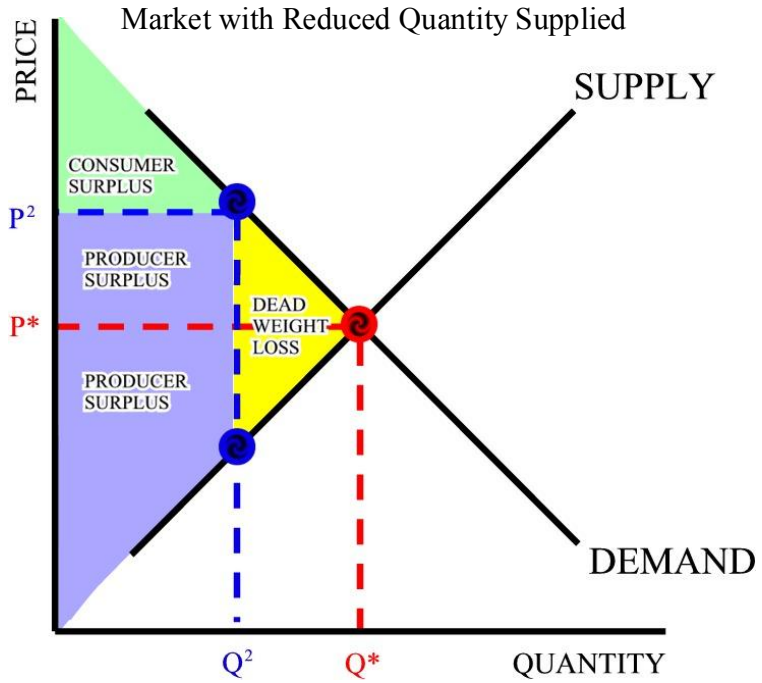

NONFAT DRY MILK EXPORTS
Actual 2009 Data
2009 Data with Market Stabilization
MILLION POUNDS
0
10
20
30
40
50
60
70
Jan
Feb
Mar
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec
2009

To summarize the previous few pages, based on the Appendix Table from FAPRI's report, the Market Stabilization Program would have created greater price volatility and reduced production growth, coming in the form of reduced exports. Now, I would like to examine the Market Stabilization Program as it applies to its statement on page 35 of FFTF where it states, "By encouraging producers to lower their milk marketings at appropriate times, **prices should rise**, thus improving margins." The intention here, as stated, is to raise the price of milk, adjusting the quantity of milk produced only acts as the means to this end result. It needs to be noted that the Market Stabilization Program uses a margin trigger to determine when the program goes into effect. The following represents a market at equilibrium.



When the margin drops below a certain point, the Market Stabilization Program will be enabled and will enforce a milk production ceiling; this effect is illustrated in the chart below. Since a drop in margin triggers the program, we could run into a situation where we impose a ceiling on the quantity of milk supplied regardless of how much milk the market demands. As I previously stated, the end game for the Market Stabilization Program is to get a higher price, so the program simultaneously creates a price floor while reducing quantity supplied. This price floor has various negative effects to our economy and export markets. The Market Stabilization Program will force a movement along the supply curve, ultimately setting a milk price, P2. In effect, the Market Stabilization Program will create a price floor on milk at P2. The impact of such a move will result in dead weight loss equal to the yellow area and a decrease in total surplus (consumer surplus plus producer surplus) to the US economy. This graph represents an inefficient market and a monopoly. The main problem with this model, among others, for the US dairy industry is that we are not a monopoly, there are foreign markets competing for our market share in our market as well as our export markets.

By "setting a price" higher than the equilibrium price, P*, we are creating an advantage for foreign markets to steal our market share, which they will attempt to do based on Game Theory Economics.



The Stackelberg Model of Quantity Competition, from Game Theory Economics, gives a clear, strategic advantage to the "first mover" into a market. According to this model, being the "first mover" in a market allows you to set the quantity supplied to that market to maximize your own profits. The Market Stabilization Program would force the US to defer the "first mover" advantage to a foreign competitor and the US would lose that distinct "first mover" advantage from this model.

We can also apply this model with respect to price. Since FFTF states the Market Stabilization Program's design is to increase price, we can equate that to setting a price floor. In the Stackelberg Model for Sequential Price Competition, the "second mover" has a clear advantage since they know the "first mover" price and can set their price somewhere between their break-even cost of production and the "first mover" price. By the Market Stabilization Program setting a price, we are clearly the "first mover" in this model and the "second mover" has the dominant position over us in our market and export markets.

Considering the results from the Appendix Table of FAPRI's study, which showed that exports would have decreased in 2009 had the Market Stabilization Program been in place, and the advantages just described from Stackelberg's Models for Price and Quantity Competition, all of the evidence shows that FFTF's Market Stabilization would have been detrimental to the United States in domestic and foreign markets. Ironically, our commodity prices would have been more volatile under the Market Stabilization Program than they would have been without it.

The conclusion from these two conditions has to be that the Market Stabilization Program will result in future peril for the US Dairy Industry.

Dairy Margin Insurance Program

Recently, there has been a great deal of discussion in regards to price support and price risk management to which FFTF has developed a Dairy Margin Insurance Program that they believe to be the answer to this issue. FFTF keeps talking about how much this program would have paid to individual producers in 2009, but no one seems concerned with where all of this money would have come from. In the next few pages, I look at how much money FFTF's Margin Insurance Program would have cost US taxpayers and I compare those costs to the costs of another Margin Insurance Program, Livestock Gross Margin- Dairy (LGM).

Before we get into a comparison, it is crucial to point out some details that will help explain how payments will be handled under each program.

LGM is a program administered by the Risk Management Agency and handled by private insurance companies. The Risk Management Agency and private insurance companies sign a Standard Reinsurance Agreement (SRA) each year, which sets the guidelines and rules for various programs. Under the SRA, the private insurance companies are responsible for the first 35% of all losses associated with the LGM Program. This may seem like the companies are getting the better end of the deal with the government but in fact the first 35% of all losses covers a vast majority of the possible losses over the past ten years.

FFTF's Dairy Margin Insurance Program would force the federal government to assume all of the risk and liabilities under this program. Going back over the past ten years would have resulted in drastic losses to the federal government under this program that far surpass any losses they would have been responsible for under the LGM program. An alternate version of this program is being discussed that would cap how much milk any given farmer could enroll at 4.1 million pounds per farmer per year. As you will see from the following graphs, with or without the production cap, over the past ten years FFTF's Margin Insurance Program would have cost the federal government large amounts of money while occurring at very inopportune times (i.e. during 2009's recession).

The following charts compare losses to the federal government under the LGM Program and FFTF's Margin Insurance Program (with and without the 4.1 million pound per farmer per year cap).

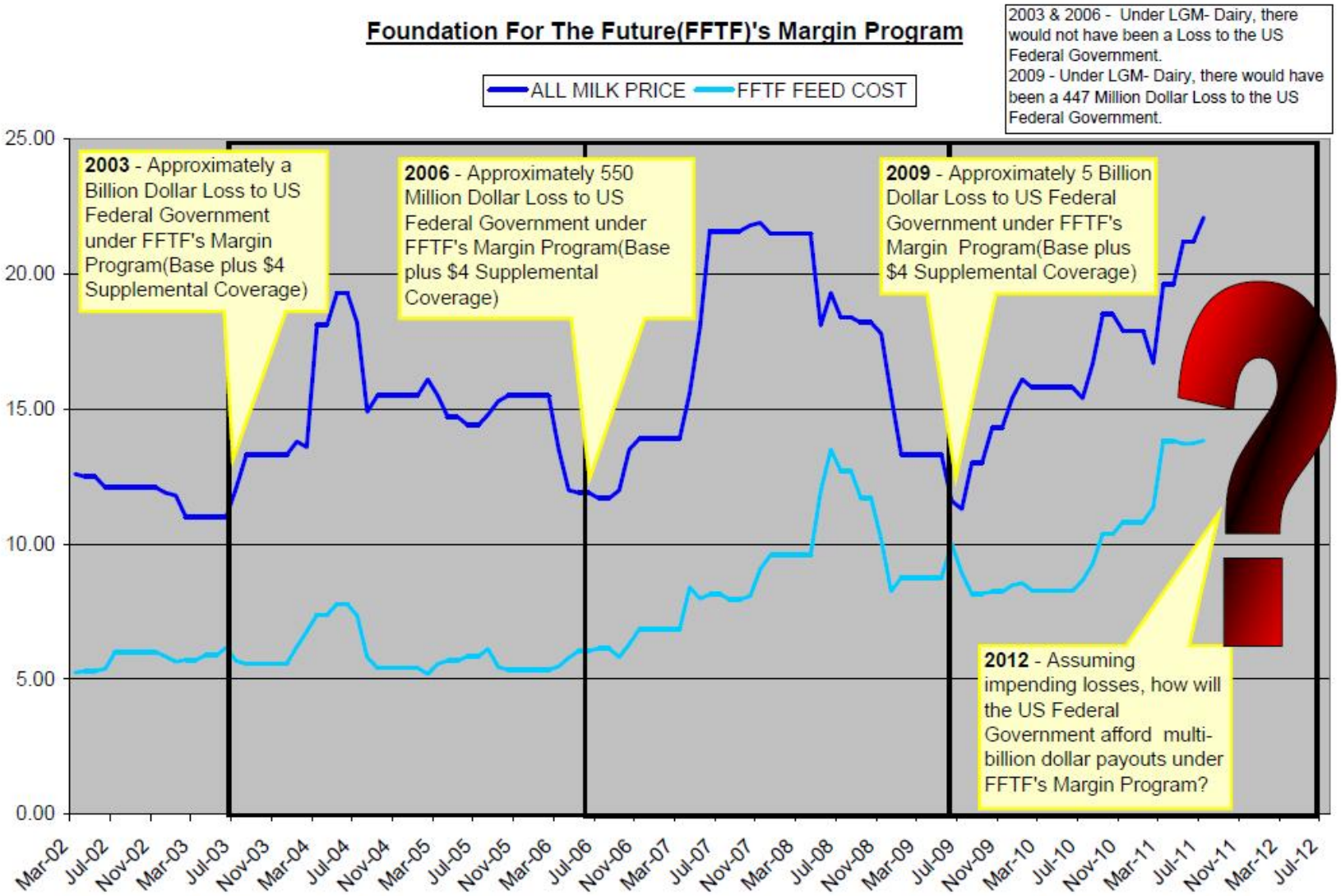
Table condensed based on 2010 herd data from National Agricultural Statistics Service (NASS).
http://usda.mannlib.cornell.edu/usda/current/FarmLandIn/FarmLandIn-02-11-2011_revision.txt

Herd Sizes	Farms	% of Total Farms	% of National Prod.	Total Milk Production	Total Milk Prod. Insurable	
					Basic Cov. 75%	Sup. Cov. 90%
1 to 199	55,100	88.16%	26.30%	49,970,000,000	37,477,500,000	44,973,000,000
200 to 2000+	7,400	11.84%	73.70%	140,030,000,000	105,022,500,000	126,027,000,000
Total	**62,500**	**100.00%**	**100.00%**	**190,000,000,000**	**142,500,000,000**	**171,000,000,000**

	LGM	FFTF MARGIN PROGRAM								
	TOT GOV LOSS	$4 Basic Cov. TOT GOV LOSS	$0.50 Sup. Cov. TOT GOV LOSS	$1 Sup. Cov. TOT GOV LOSS	$1.50 Sup. Cov. TOT GOV LOSS	$2 Sup. Cov. TOT GOV LOSS	$2.50 Sup. Cov. TOT GOV LOSS	$3 Sup. Cov. TOT GOV LOSS	$3.50 Sup. Cov. TOT GOV LOSS	$4 Sup. Cov. TOT GOV LOSS
2002	$ -	$ -	$ (25,650,000)	$ (61,560,000)	$ (28,354,023)	$ 103,238,565	$ 504,313,730	$ 803,710,089	$ 1,298,083,196	$ 1,585,363,196
2003	$ -	$ -	$ (25,650,000)	$ (38,544,526)	$ 109,450,887	$ 319,259,109	$ 607,665,415	$ 757,575,415	$ 989,565,415	$ 1,016,604,761
2004	$ -	$ -	$ (25,650,000)	$ (61,560,000)	$ (138,510,000)	$ (265,050,000)	$ (393,300,000)	$ (681,915,154)	$ (806,175,154)	$ (1,231,395,154)
2005	$ -	$ -	$ (25,650,000)	$ (61,560,000)	$ (138,510,000)	$ (265,050,000)	$ (393,300,000)	$ (742,140,000)	$ (1,008,900,000)	$ (1,576,620,000)
2006	$ -	$ -	$ (25,650,000)	$ (61,560,000)	$ (138,510,000)	$ (173,762,890)	$ (1,735,379)	$ 44,362,245	$ 404,894,427	$ 549,674,427
2007	$ -	$ -	$ (25,650,000)	$ (61,560,000)	$ (138,510,000)	$ (265,050,000)	$ (393,300,000)	$ (701,172,233)	$ (782,040,713)	$ (1,136,010,713)
2008	$ -	$ -	$ (25,650,000)	$ (54,334,979)	$ (60,034,979)	$ (2,331,100)	$ 223,547,474	$ 373,457,474	$ 642,075,545	$ 720,195,100
2009	$ 447,372,010	$ 1,247,085,116	$ 473,100,000	$ 1,026,824,192	$ 1,591,124,192	$ 2,105,834,192	$ 2,681,381,147	$ 3,056,046,122	$ 3,573,036,122	$ 3,821,466,077
2010	$ -	$ -	$ (25,650,000)	$ (61,560,000)	$ (115,399,934)	$ (170,689,934)	$ (202,612,599)	$ (263,746,253)	$ (48,931,664)	$ 94,580,328
2011	$ -	$ -	$ (25,650,000)	$ 24,446,673	$ 69,639,530	$ 122,704,494	$ 292,987,272	$ 408,028,596	$ 656,877,372	$ 822,014,515
AVE	$ 44,737,201	$ 124,708,512	$ 24,225,000	$ 58,903,136	$ 101,238,567	$ 150,910,244	$ 292,564,706	$ 305,420,630	$ 491,848,455	$ 466,587,254
MAX	$ 447,372,010	$ 1,247,085,116	$ 473,100,000	$ 1,026,824,192	$ 1,591,124,192	$ 2,105,834,192	$ 2,681,381,147	$ 3,056,046,122	$ 3,573,036,122	$ 3,821,466,077

INDICATES GOVERNMENT LOSS
INDICATES LARGER GOVERNMENT LOSS THAN LGM

Over the past 10 years, the average loss to the Federal Government under FFTF's Margin Program (Basic Coverage plus $4 Supplemental Coverage) would have been roughly 590 million dollars. In 2009, the loss to the Federal Government would have been roughly 5 billion dollars. Compare that to an average of 44.7 million dollars under the LGM-Dairy program and a 2009 total loss of roughly 447 million dollars to the Federal Government. This is represented visually on the next page.


Foundation For The Future(FFTF)'s Margin Program
ALL MILK PRICE
FFTF FEED COST
2003 & 2006 - Under LGM- Dairy, there would not have been a Loss to the US Federal Government.
2009 - Under LGM- Dairy, there would have been a 447 Million Dollar Loss to the US Federal Government.
2003 - Approximately a Billion Dollar Loss to US Federal Government under FFTF's Margin Program(Base plus $4 Supplemental Coverage)
2006 - Approximately 550 Million Dollar Loss to US Federal Government under FFTF's Margin Program(Base plus $4 Supplemental Coverage)
2009 - Approximately 5 Billion Dollar Loss to US Federal Government under FFTF's Margin Program(Base plus $4 Supplemental Coverage)
2012 - Assuming impending losses, how will the US Federal Government afford multi-billion dollar payouts under FFTF's Margin Program?
25.00
20.00
15.00
10.00
5.00
0.00
Mar-02
Jul-02
Nov-02
Mar-03
Jul-03
Nov-03
Mar-04
Jul-04
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Jul-12

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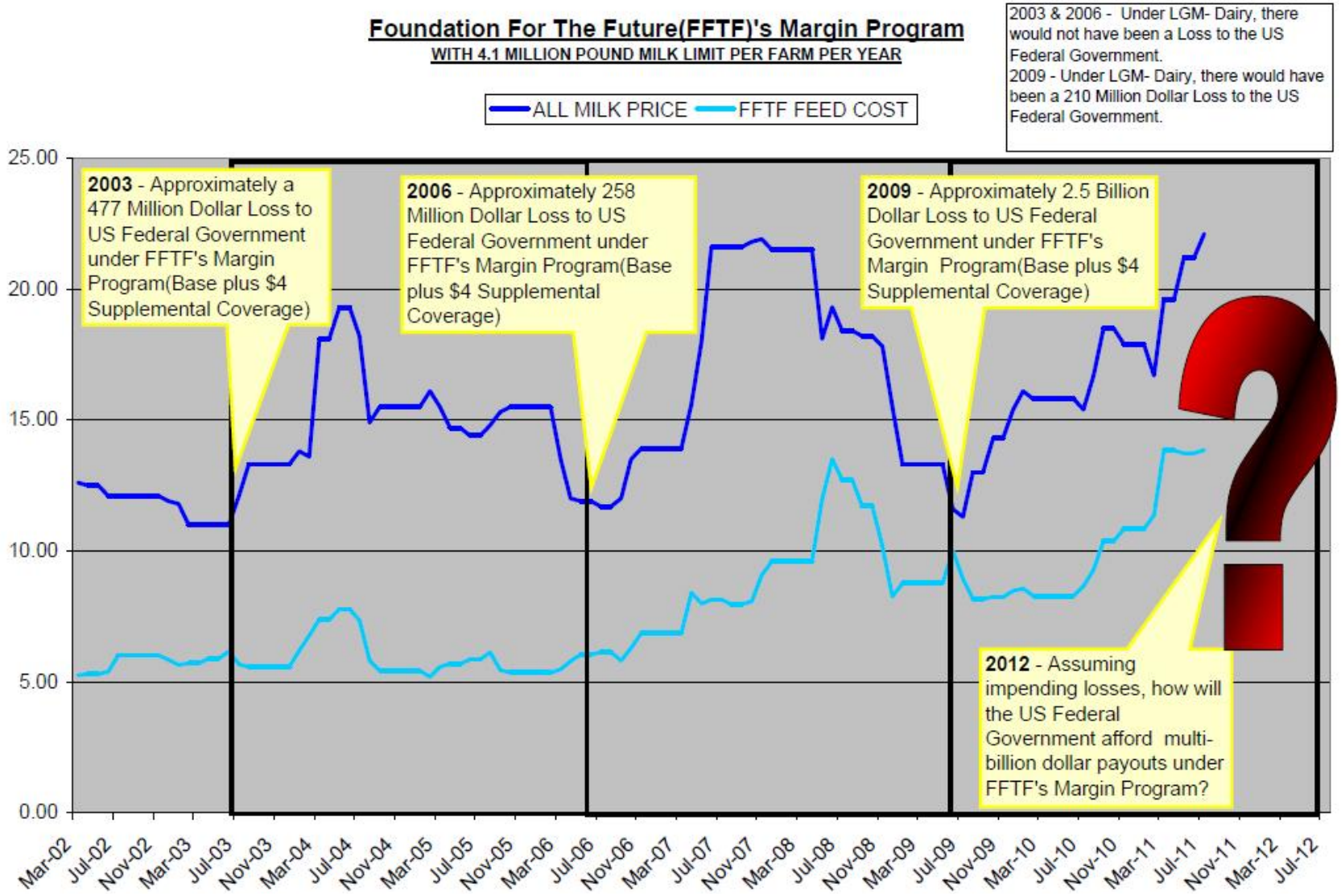
Herd Sizes	Farms	% of Total Farms	% of National Prod.	Total Milk Production	Total Milk Prod. Insurable	Percent Milk Insured
1 to 199	55,100	88.16%	26.30%	49,970,000,000	49,970,000,000	100.00%
200 to 2000+	7,400	11.84%	73.70%	140,030,000,000	30,340,000,000	21.67%
Total	**62,500**	**100.00%**	**100.00%**	**190,000,000,000**	**80,310,000,000**	**42.27%**

	LGM	FFTF MARGIN PROGRAM (WITH 4.1 MILLION POUND MILK LIMIT PER FARM PER YEAR)								
		$4 Basic Cov.	$0.50 Sup. Cov.	$1 Sup. Cov.	$1.50 Sup. Cov.	$2 Sup. Cov.	$2.50 Sup. Cov.	$3 Sup. Cov.	$3.50 Sup. Cov.	$4 Sup. Cov.
	TOT GOV LOSS	TOT GOV LOSS	TOT GOV LOSS	TOT GOV LOSS	TOT GOV LOSS	TOT GOV LOSS	TOT GOV LOSS	TOT GOV LOSS	TOT GOV LOSS	TOT GOV LOSS
2002	$ -	$ -	$ (12,046,500)	$ (28,911,600)	$ (13,316,442)	$ 48,485,902	$ 236,850,501	$ 377,461,738	$ 609,643,634	$ 744,564,434
2003	$ -	$ -	$ (12,046,500)	$ (18,102,403)	$ 51,403,513	$ 149,939,760	$ 285,389,529	$ 355,794,629	$ 464,748,529	$ 477,447,534
2004	$ -	$ -	$ (12,046,500)	$ (28,911,600)	$ (65,051,100)	$ (124,480,500)	$ (184,713,000)	$ (320,260,854)	$ (378,619,454)	$ (578,323,654)
2005	$ -	$ -	$ (12,046,500)	$ (28,911,600)	$ (65,051,100)	$ (124,480,500)	$ (184,713,000)	$ (348,545,400)	$ (473,829,000)	$ (740,458,200)
2006	$ -	$ -	$ (12,046,500)	$ (28,911,600)	$ (65,051,100)	$ (81,607,589)	$ (815,019)	$ 20,834,689	$ 190,158,312	$ 258,154,112
2007	$ -	$ -	$ (12,046,500)	$ (28,911,600)	$ (65,051,100)	$ (124,480,500)	$ (184,713,000)	$ (329,304,924)	$ (367,284,735)	$ (533,526,435)
2008	$ -	$ -	$ (12,046,500)	$ (25,518,375)	$ (28,195,375)	$ (1,094,799)	$ 104,988,875	$ 175,393,975	$ 301,550,217	$ 338,238,997
2009	$ 210,107,872	$ 702,830,917	$ 222,191,000	$ 482,247,081	$ 747,270,081	$ 989,003,181	$ 1,259,308,303	$ 1,435,269,381	$ 1,678,073,281	$ 1,794,748,191
2010	$ -	$ -	$ (12,046,500)	$ (28,911,600)	$ (54,197,478)	$ (80,164,378)	$ (95,156,829)	$ (123,868,196)	$ (22,980,713)	$ 44,419,568
2011	$ -	$ -	$ (12,046,500)	$ 11,481,359	$ 32,706,144	$ 57,628,058	$ 137,601,215	$ 191,630,272	$ 308,501,882	$ 386,058,396
AVE	$ 21,010,787	$ 70,283,092	$ 11,377,250	$ 27,663,806	$ 47,546,604	$ 70,874,864	$ 137,402,757	$ 143,440,531	$ 230,996,195	$ 219,132,294
MAX	$ 210,107,872	$ 702,830,917	$ 222,191,000	$ 482,247,081	$ 747,270,081	$ 989,003,181	$ 1,259,308,303	$ 1,435,269,381	$ 1,678,073,281	$ 1,794,748,191

INDICATES GOVERNMENT LOSS
INDICATES LARGER GOVERNMENT LOSS THAN LGM

Over the past 10 years, the average loss to the Federal Government under FFTF's Margin Program (Basic Coverage plus $4 Supplemental Coverage), with 4.1 million pound limit per farm per year, would have been roughly 290 million dollars. In 2009, the loss to the Federal Government would have been roughly 2.5 billion dollars. Compare that to an average of 21 million dollars under the LGM-Dairy program and a 2009 total loss of roughly 210 million dollars to the Federal Government. This is represented visually on the next page.


Foundation For The Future(FFTF)'s Margin Program
WITH 4.1 MILLION POUND MILK LIMIT PER FARM PER YEAR
ALL MILK PRICE
FFTF FEED COST
2003 & 2006 - Under LGM- Dairy, there would not have been a Loss to the US Federal Government.
2009 - Under LGM- Dairy, there would have been a 210 Million Dollar Loss to the US Federal Government.
2003 - Approximately a 477 Million Dollar Loss to US Federal Government under FFTF's Margin Program(Base plus $4 Supplemental Coverage)
2006 - Approximately 258 Million Dollar Loss to US Federal Government under FFTF's Margin Program(Base plus $4 Supplemental Coverage)
2009 - Approximately 2.5 Billion Dollar Loss to US Federal Government under FFTF's Margin Program(Base plus $4 Supplemental Coverage)
2012 - Assuming impending losses, how will the US Federal Government afford multi-billion dollar payouts under FFTF's Margin Program?
25.00
20.00
15.00
10.00
5.00
0.00
Mar-02
Jul-02
Nov-02
Mar-03
Jul-03
Nov-03
Mar-04
Jul-04
Nov-04
Mar-05
Jul-05
Nov-05
Mar-06
Jul-06
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Mar-11
Jul-11
Nov-11
Mar-12
Jul-12

Page 12 of this document presents actual 2010 herd data from National Agriculture Statistics Service (NASS) along with loss comparisons under LGM and FFTF's Margin Insurance Program. The pertinent information from the condensed table is that there are 62,500 farms producing 190 billion pounds of milk. Under FFTF, a dairy producer would be able to insure up to 75% of their production under Basic coverage and up to 90% of their production under the Supplemental coverage. In terms of national milk production that equates to 142.5 billion pounds of milk enrolled under Basic coverage and 171 billion pounds of milk enrolled under Supplemental coverage. To make a straight comparison between both programs, I am using 171 billion pounds of milk to demonstrate LGM losses as well as the Supplemental coverage losses under FFTF.

The loss comparison, following the condensed table, takes the historical price data from 2002 to 2011 and lists total losses incurred by the federal government for each year and for each coverage. As you can see from the table, in 2009, the federal government would have been responsible for approximately 447 million dollars under the LGM Program. Under FFTF's Program, the federal government at $4 Supplemental coverage would have been responsible for over 5 billion dollars ($1.2 billion for Basic coverage and $3.8 billion for Supplemental coverage). On average from 2002 to 2011, LGM would have cost approximately 45 million dollars per year and FFTF's program would have cost approximately 590 million dollars per year to the federal government. Page 13 demonstrates a snapshot of what the losses incurred would be for 2003, 2006, and 2009.

Page 14 of this document shows similar data to what page 12 shows, except now we are examining FFTF's Margin Insurance Program with a 4.1 million pound cap per producer per year. As you can see, farms with herd sizes from 1 to 199 cows are able to fully insure their milk production under this program. Farms with herd sizes of 200+ cows are only able to insure 21.67%, for a total national milk production insurable under this program being 80.31 million pounds of milk. That equates to roughly 42% of all US milk production. Once again under FFTF's Program a producer can insure 75% under Basic coverage and 90% under Supplemental coverage. Using the same amount of milk production under LGM as FFTF's Program (with cap), we can see that the total losses to the federal government are still very heavy even with the milk production cap. The federal government loss under LGM would be approximately 21 million dollars per year over the past ten years and roughly 290 million dollars per year under FFTF's Program (with cap). Page 15 demonstrates a snapshot of what the losses incurred would be for 2003, 2006, and 2009.

Aside from the possibility of federal government paying out billions of dollars in losses to dairy producers, there are a myriad of other issues FFTF's Margin Insurance Program presents, including but not limited to lack of flexibility for different feed rations, no allowance for growing operations, every dairy producer insuring against a National Margin that might be quite different from their own actual margin…

As you can see from all of the previous data, over the past 10 years, had FFTF's Margin Insurance program been in place, the federal government would have had to pay out billions of dollars in claim payments.

Combining the possibility of a 5 billion dollar federal government payout to dairy producers under the Margin Insurance Program during the 2009 recession along with decreased exports under the Market Stabilization Program screams the question, who's Future is this Foundation for?

About the Author

Jason Morrissey is a graduate of Virginia Tech with a B.S. in mathematics and a focus on economics. He works daily with farmers and has developed sophisticated spreadsheets that assist farmers in determining how to utilize currently available tools for managing their market risk in an increasingly complex global marketplace for agriculture commodities.

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About DPAC

The Dairy Policy Action Coalition is a coalition of grassroots dairy producers actively participating, with a unified voice, on policies and issues affecting milk pricing. The 2011 DPAC board is made up of active dairy producers—operating dairy farms ranging in size from 30 cows to 2000 cows—from Pennsylvania, Ohio, New York, North Carolina, Tennessee, Indiana, and Wisconsin, along with ad hoc producer members serving on action groups from additional regions covering more than 12 additional states. DPAC is funded by donations instead of dues. In 2010, DPAC received financial support from dairy farmers and dairy farm organizations in 20 states and from local businesses that serve dairy farms in eight states.

Visit http://www.dpac.net/ or email the correspondence secretary, Sherry Bunting, at agrite@ptd.net to learn more.