

Department of Agricultural and Resource Economics

DAIRY MARGIN COVERAGE PROGRAM UPDATES AND UTILIZATION IN THE SOUTHEAST

December 2021

*Charles Martinez, Assistant Professor
Seth Ingram, Graduate Research Assistant
Department of Agricultural and Resource Economics*

*David Bilderback, Extension Area Specialist
UT Extension Eastern Region*

*Elizabeth Eckelkamp, Assistant Professor
Department of Animal Science*

On December 8, 2021, the Biden Administration announced the opening of the 2022 sign-up period for the Dairy Margin Coverage (DMC) program, which will run from **December 13, 2021, to February 18, 2022**. Additionally, the administration detailed modifications to the program to provide additional support for small- and mid-sized dairy operations that have increased production in recent years but were unable to enroll the additional production and to enhance the accuracy of the feed cost formula. This fact sheet provides an overview of the announcement, as well as an analysis of the margins of dairy operations in Tennessee, Kentucky and North Carolina and utilization of the DMC program in these three states since 2019.

Key Takeaways from USDA Announcement

Supplemental DMC:

- The new Supplemental DMC will provide \$580 million for eligible dairy operations with less than 5 million pounds of established production history to enroll supplemental pounds based on 2019 actual milk marketings. This change allows for operations to select an increased production coverage level if the dairy increased production from the previous locked-in production level.
- Supplemental DMC coverage is applicable to calendar years 2021, 2022 and 2023.
- Participating dairy operations with supplemental production may receive retroactive supplemental payments for 2021 in addition to payments based on their established production history.
- Enrollment in Supplemental DMC will require a revision to a producer's 2021 DMC contract and must occur before enrollment in DMC for the 2022 program year.

Amended Feed Cost Formula:

- Farm Service Agency will now calculate DMC payments using 100 percent premium alfalfa hay rather than 50 percent.
- This change is intended to better reflect the actual cost paid by dairy farmers for alfalfa hay and make DMC payments more reflective of actual expenses.

Additional Dairy Program Updates:

- US Department of Agriculture is also updating Dairy Indemnity Payment Program (DIPP) regulations to add provisions for the indemnification of cows that are likely to be not marketable for longer durations as a result (e.g., of per- and polyfluoroalkyl substances).

Analysis of Dairy Margins

2021 DMC:

- So far in 2021, the milk margin above feed cost has been less than \$9.50 per cwt every month, resulting in DMC payments triggered for January through October for more than \$1 billion.
- For producers with a 95 percent coverage level, the average DMC premium paid so far in 2021 is \$0.142 per cwt and average payment received equates to \$2.55 per cwt.

Dairy Margin Coverage Program Updates and Utilization in the Southeast

2020 Margins for Southeast Dairies:

DMC provides a critical financial safety net for producers in the Southeast. We compared DMC and the calculated margin for the 2020 Dairy Gauge dairy operations located in Tennessee, North Carolina and Kentucky.

- The 2020 marketing year average margin (total milk cost per cwt - total feed cost per cwt) for the dairy farms in our dataset is \$11.71 per cwt.
 - Dairies that were greater than 400 head had a margin of \$11.06.
 - Dairies that were less than 400 head had a margin of \$12.32.

Utilization of DMC in the Southeast from 2019 to 2021

Table 1. Yearly Participation by State

Year	Tennessee	North Carolina	Kentucky
2019	82%	70%	73%
2020	74%	52%	31%
2021	84%	68%	62%



UTIA.TENNESSEE.EDU

Programs in agriculture and natural resources, 4-H youth development, family and consumer sciences, and resource development. University of Tennessee Institute of Agriculture, U.S. Department of Agriculture and county governments cooperating. UT Extension provides equal opportunities in programs and employment.