

Margin Protection Program for Dairy: MPP-Dairy Revisions for 2018



The Bipartisan Budget Act of 2018 includes amendments to the Dairy Margin Protection Program (MPP). MPP-Dairy was originally established in the Agricultural Act of 2014. Its goal was to reduce market risk of dairy producers associated with the all-milk price and average feed costs. However, difficulties with the program led to low enrollment, and many stakeholders called for changes to the program design. In response to these problems, Congress revised various parameters of MPP-Dairy on February 9, 2018, through amendments to the Agricultural Act of 2014 in the Bipartisan Budget Act of 2018.

The special MPP-Dairy sign-up period for 2018 began on April 9, 2018, and ends on June 1, 2018. The new sign-up allows all dairy producers, including those who had previously signed up and those who did not, the chance to make new elections on MPP-Dairy coverage for 2018. These decisions will be implemented retroactively to January 1, 2018. **All producers who want to choose or revise MPP-Dairy coverage for 2018 must do so at their local Farm Service Administration (FSA/USDA) office by June 1, 2018.** Further sign-up details are listed in the final section of this document.

The significant changes to MPP-Dairy for 2018 coverage are listed below in **Table 1**. The right column of Table 1 describes changes in MPP-Dairy that will be implemented during 2018. The primary changes include—

- lower premiums for the first 5 million pounds of milk production,
- an adjustment to the calculation of the MPP-Dairy margin, and
- changing payments (all-milk price minus average feed cost) to monthly instead of every other month.

The premium levels were lowered significantly for the first 5 million (Tier 1) pounds of milk production. The old and new premiums are shown in **Table 2**. The premium changes are a primary reason that the MPP-Dairy program is now significantly more attractive to dairy producers than was the original program. While the changes are beneficial in lowering the premium for the first 5 million pounds of milk production, there is no change to the premiums for milk production exceeding 5 million pounds.

Table 1. Changes to the Dairy Margin Protection Program.

Agricultural Act of 2014	Bipartisan Budget Act of 2018
Calculation of actual dairy production margin is for "consecutive 2-month period."	Calculation of actual dairy production margin is for <i>each month</i> . Annual production history equally divided across 12 months.
The administrative fee for a participating dairy operation shall be \$100.	<i>A limited-resource, beginning, veteran, or socially disadvantaged farmer, as defined by the Secretary, shall be exempt from the administrative fee.</i>
Tier I: Premium per hundredweight is for first 4 million pounds of production.	Tier I: Premium per hundredweight is for first <i>5 million</i> pounds of production.

Table 2. Producer Tier 1 premium changes in dollars per CWT.

Old premiums		New premiums	
4 million pounds or less		5 million pounds or less	
Coverage level	Premium	Coverage level	Premium
\$4.00	0	\$4.00	0
\$4.50	\$0.008	\$4.50	0
\$5.00	\$0.019	\$5.00	0
\$5.50	\$0.030	\$5.50	\$0.009
\$6.00	\$0.041	\$6.00	\$0.016
\$6.50	\$0.068	\$6.50	\$0.040
\$7.00	\$0.163	\$7.00	\$0.063
\$7.50	\$0.225	\$7.50	\$0.087
\$8.00	\$0.475	\$8.00	\$0.142

2018 Expected Payments under Amended MPP-Dairy

The changes made to MPP-Dairy are generally beneficial to dairy producers in terms of the impact on returns (payouts). This is especially true for dairy producers with less than 5 million pounds of annual production. An important provision of the changes is that decisions made before June 1, 2018, are retroactive to January 1, 2018. This means that producers will know their payouts for the first few months of 2018 *before* the sign-up deadline.

For example, the margins for January, February, and March 2018 are \$8.12, \$6.88, and \$6.77, respectively, according to the *Margin Protection Program Decision Tool* available on the USDA Farm Service Agency (FSA) website. Therefore, producers choosing the \$8.00 margin coverage level know with certainty that they will receive a payment for both February and March 2018. Knowing the payments for a few months before enrolling is a significant advantage for producers—this will occur ONLY this year because of the additional enrollment period.

To illustrate this, we can consider a 100-head dairy with an average annual milk production per cow of 20,000 pounds. This would imply 2 million pounds of annual milk production¹. We assume the producer chooses a 90 percent coverage level. To simplify this illustration, the example below does not consider any MPP-Dairy participation and/or milk production history for 2016 or 2017, which would likely influence the annual base milk production for 2018.

For example and using the following assumptions for estimating the actual expected MPP-Dairy payouts for February and March 2018²:

Sign-up annual milk production coverage:	2,000,000 lb
Sign-up production coverage level chosen:	90%
Reported February and March (1/2 of annual) production:	166,667 lb
90% of February and March milk production covered:	150,000 lb
Actual MPP-Dairy Margin for February 2018:	\$6.88/cwt
Actual MPP-Dairy Margin for March 2018:	\$6.77/cwt

Estimated actual MPP-Dairy payouts for February 2018 at various price/margin coverage levels and using the assumptions listed above:

Coverage level	MPP payout/cwt	Amt of milk covered	Total payout
\$8.00/cwt	\$1.12/cwt (\$8.00-\$6.88)	150,000 lb	\$1,680
\$7.50/cwt	\$0.62/cwt (\$7.50-\$6.88)	150,000 lb	\$ 930
\$7.00/cwt	\$0.12/cwt (\$7.00-\$6.88)	150,000 lb	\$ 180
\$6.50/cwt	\$0.00/cwt	150,000 lb	\$ -0-
\$6.00/cwt	\$0.00/cwt	150,000 lb	\$ -0-
\$5.50/cwt	\$0.00/cwt	150,000 lb	\$ -0-
\$5.00/cwt	\$0.00/cwt	150,000 lb	\$ -0-
\$4.50/cwt	\$0.00/cwt	150,000 lb	\$ -0-
\$4.00/cwt	\$0.00/cwt	150,000 lb	\$ -0-

Estimated actual MPP-Dairy payouts for March 2018 at various price/margin coverage levels and using the assumptions listed above:

Coverage level	MPP payout/cwt	Amt of milk covered	Total payout
\$8.00/cwt	\$1.23/cwt (\$8.00-\$6.77)	150,000 lb	\$1,845
\$7.50/cwt	\$0.73/cwt (\$7.50-\$6.77)	150,000 lb	\$1,095
\$7.00/cwt	\$0.23/cwt (\$7.00-\$6.77)	150,000 lb	\$ 345
\$6.50/cwt	\$0.00/cwt	150,000 lb	\$ -0-
\$6.00/cwt	\$0.00/cwt	150,000 lb	\$ -0-
\$5.50/cwt	\$0.00/cwt	150,000 lb	\$ -0-
\$5.00/cwt	\$0.00/cwt	150,000 lb	\$ -0-
\$4.50/cwt	\$0.00/cwt	150,000 lb	\$ -0-
\$4.00/cwt	\$0.00/cwt	150,000 lb	\$ -0-

Given the best estimates of 2018 MPP-Dairy margins as of April, **Table 3** shows the current forecast MPP-Dairy payouts to producers with 2 million pounds annual milk production and who choose the 90 percent milk production coverage option. It is important to note that, if a dairy producer elects any price or MPP margin coverage level less than \$7.00/cwt, then the expected payments from MPP-Dairy payouts would be less than the corresponding administrative fees plus premium costs. Thus, the right column shows expected net returns from MPP-Dairy would be negative for any price or margin coverage level less than \$7.00/cwt during 2018. It is also important to consider the total premium cost shown in Table 3 relative to the actual payments for February and March 2018 listed above. Specifically, at the \$8.00 and 90% coverage levels, the sum of the known payments for February and March (\$1,680 plus \$1,845 equals \$3,525) is greater than the annual premium amount (\$2,831).

Special Enrollment Period

The 2018 MPP-Dairy enrollment period has been reopened so that producers can amend their decision in response to the new, amended program details. This allows for new enrollments or changes to coverage levels. The enrollment period has been extended until June 1, 2018. As mentioned previously, these decisions are retroactive to January 1, 2018.

All dairy farmers who want MPP-Dairy coverage for 2018 must register at their local Farm Service Agency (FSA)

¹Milk production history for MPP-Dairy is calculated as the highest calendar year milk marketings between 2011 and 2013 or by alternative methods if a dairy does not have 12 full months of milk marketings prior to February 7, 2014. See the fact sheet in the references for more information.

²Payments under MPP-Dairy may be reduced by a certain percentage due to a sequester order required by Congress. Should a payment reduction be necessary, the 2018 sequester rate for MPP-Dairy is 6.6 percent.

Table 3. 2018 forecast returns to producers under 2018 MPP-Dairy Program as of April 27, 2018 (90% coverage level on 2 million pounds of annual production history).

	Administrative fees & premiums	Expected payment	Expected net returns
\$8.00	\$2,831	\$9,907	\$7,076
\$7.50	\$1,773	\$5,375	\$3,602
\$7.00	\$1,312	\$1,813	\$501
\$6.50	\$869	\$261	-\$608
\$6.00	\$408	\$21	-\$387
\$5.50	\$273	\$1	-\$272
\$5.00	\$100	\$0	-\$100
\$4.50	\$100	\$0	-\$100
\$4.00	\$100	\$0	-\$100

Note: These returns are forecast based on market conditions on April 27, 2018, and expectations about future market conditions. These results are not guaranteed.

Source: Margin Protection Program Decision Tool, USDA-FSA

office to enroll and/or amend coverage levels. Producers will need to complete form CCC-782 (annual reported milk production), select a milk production percentage, choose a price/margin coverage level, and pay the \$100 administrative fee (unless producer is qualified for a waiver) by the June 1, 2018, deadline. *Special note:* The dairy's annual production level will be increased by various factors if the operation participated in MPP-Dairy for 2016 and 2017.

Summary and Conclusion

Since MPP-Dairy for 2018 elections are retroactive to January 1, a producer will know with certainty what payments would be for January, February, March, and possibly even April before the June 1 sign-up deadline. As the calculated MPP-Dairy payouts for February and March 2018 and Table 3 demonstrate, it is advantageous for dairy producers to sign up for MPP-Dairy for 2018 and choose the \$8.00 price/margin coverage level. Finally, it is also recommended that producers with less than 5 million pounds of annual production elect the highest percentage of milk production (the 90% production coverage level option).

The sign-up deadline for MPP-Dairy for 2018 is Friday, June 1, 2018.

References and Useful Links

Contact USDA personnel at your local FSA office to sign up and address any questions or concerns. Additional information from USDA and an MPP-Dairy online tool can be found at the following websites:

USDA MPP website: <https://www.fsa.usda.gov/programs-and-services/Dairy-MPP/index>

USDA MPP April 2018 Fact Sheet: https://www.fsa.usda.gov/Assets/USDA-FSA-Public/usdfiles/FactSheets/2018/mpp_dairy_program_april_2018.pdf

Online tool: <https://dairymarkets.org/MPP/Tool/>

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