



## Proposed Improvements to the Margin Protection Program for Dairy

### EXECUTIVE SUMMARY

March 2017

The Margin Protection Program-Dairy (MPP) was developed by the National Milk Producers Federation (NMPF) through a deliberative, grassroots process in response to the dairy financial crisis of 2009. The program allows farmers to insure against low margins – the gap between milk prices and feed costs – with participants paying premiums for levels of coverage above the \$4.00/cwt. catastrophic coverage level. Congress accepted NMPF’s proposal as the template for the dairy safety net program in the 2012 farm bill, but by the time it was enacted in 2014, the MPP had been changed and diluted to address Congressional Budget Office cost projections. As a result, the program has fallen short of providing the protection required of an effective farm safety net.

Because of these changes, actual participation at the higher coverage levels under the program has dropped substantially. Correcting the current program’s deficiencies will require legislative changes, as the key issues that need to be addressed are written into law and thus not able to be changed administratively.

NMPF’s Board of Directors has approved a comprehensive package of recommended changes to the MPP, all of which will help improve its effectiveness for dairy farmers. These include:

#### 1. RESTORE ORIGINAL FEED COST FORMULA AND ADJUST FEED & MILK PRICE DATA SOURCES

- Restore the 10% feed formula reduction, which was cut arbitrarily by the Congressional Budget Office, back to the level in the original NMPF proposal.
- Use the corn “prices paid” series from the USDA’s AMS instead of the NASS “prices received” data; work with AMS to improve the collection of that data.
- Seek improvement in alfalfa price calculation to reflect dairy-quality hay costs.
- Change the source of the soybean meal price in the MPP feed formula from the single, Decatur-Central Illinois pricing point to the average of all pricing points reported by AMS.
- Assess how the reporting of both the NASS all-milk price and the AMS mailbox price could be improved.

#### 2. ACCURACY AND AFFORDABILITY OF MPP PREMIUM RATES

- Adjust premiums to incentivize increased producer participation in the program while balancing premium costs in a manner that keeps overall MPP budget costs at manageable levels.

#### 3. TIMING OF MARGIN DETERMINATIONS AND ANNUAL SIGN-UP

- Calculate MPP payment to farmers on a monthly basis, rather than bi-monthly.
- Provide producers with greater flexibility in signing up for coverage at the end of the year prior to the calendar year for which they are seeking coverage.

#### 4. EXPANSION AND COMPATIBILITY OF LGM WITH MPP

- The Livestock Gross Margin (LGM) program should be incorporated as part of the NMPF request of Congress, with the goal of significantly expanding the cap for dairy and ensuring that LGM works in a complementary manner with the MPP.