NMPF Recommendations for Improvements in the Margin Protection Program for Dairy

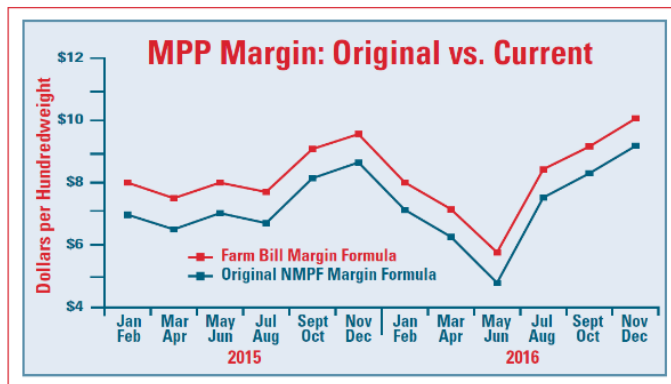
The Margin Protection Program-Dairy (MPP) was developed by the National Milk Producers Federation (NMPF) through a deliberative, grassroots process in response to the dairy financial crisis of 2009. The program allows farmers to insure against low margins – the gap between milk prices and feed costs – with participants paying premiums for levels of coverage above the $4/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 MPP 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 cannot 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.

1. RESTORE ORIGINAL FEED COST FORMULA AND REASSESS FEED & MILK PRICE SOURCES

A. ISSUE: During its deliberations on the 2014 farm bill, Congress made a 10-percent cut to the weightings of all three feedstuff components (corn, soybean meal, alfalfa hay) of the MPP feed cost formula, based on an arbitrary cost analysis by the Congressional Budget Office. NMPF had developed the original feed cost formula with great care, using the input from dairy cattle nutritionists, academic experts and dairy producers. The current, diluted, MPP feed cost formula understates the cost of feed to produce 100 pounds of milk, thereby overstating the milk price over feed cost margin, reducing program payments to producers.



The current MPP margin created by the 2014 farm bill is significantly higher than what the margin would be using the original feed cost formula developed by NMPF.

POSITION: The 10-percent feed formula reduction from the original NMPF proposal should be restored to its originally-proposed level, so the program operates as intended for producers across the country.

B. ISSUE: The original MPP formula utilized CME-near-month futures prices as the best available indicator of what dairy farmers paid for corn. However, USDA recommended that Congress not use the CME and instead use official USDA prices issued by NASS. However, NASS prices reflect prices that corn farmers receive when they sell – not what dairy farmers actually pay. Using the NASS corn price in the MPP feed cost formula understates the cost of feed to produce 100 pounds of milk, and thereby overstates the milk price over feed cost margin, which reduces program payments to farmers.

POSITION: The source of the corn price in the feed formula should be changed from NASS to AMS, and that NMPF work with AMS to improve the collection of that data.

C. ISSUE: Official data for hay pricing to incorporate into the MPP feed formula is scarce, thus the NASS price was selected to be used in the MPP formula. The NASS average price received by farmers for selling alfalfa hay, which is currently used to compute the MPP feed cost, is an average of all quality levels with no further breakout. A measure of higher-quality, and therefore higher-priced, alfalfa hay suitable for feeding to lactating dairy cows would be more appropriate for the MPP feed cost formula.

POSITION: NMPF will work with NASS and AMS on the need to evaluate the collection and usage of dairy hay reporting.

D. ISSUE: When Congress adopted USDA's recommendation to use USDA-reported prices instead of CME futures-based prices for feed components, NMPF proposed that the soybean meal price should be the national average of the 11 different points for which AMS reported a price. Congress instead specified just a single such pricing point, Decatur-Central Illinois. However, using the national average of the reported soybean meal prices would more accurately reflect the cost to all U.S. dairy farmers of purchasing this feed ingredient, and would make the soybean meal component consistent with the other three national average components of the MPP margin calculation.

POSITION: The source of the soybean meal price in the MPP feed formula should be modified from the Decatur-Central Illinois pricing point to the average of all pricing points reported by AMS, and that NMPF work with AMS to improve the collection of that data.

E. ISSUE: The MPP feed cost formula uses the monthly NASS all-milk price because USDA has a clear preference for using NASS data, as it is reported on a timelier basis than the monthly AMS mailbox price. NMPF does not dispute that the all-milk price might currently be the best option to reflect the national average price of milk, but further analysis must be undertaken to verify the validity of the all-milk price.

POSITION: NMPF should work with NASS and AMS to assess ways that calculation of both the all-milk price and the mailbox milk price could be improved. The agencies should review the potential for reporting the mailbox milk price on a timelier basis and including appropriate deductions.

2. ACCURACY AND AFFORDABILITY OF MPP PREMIUM RATES

ISSUE: MPP's original concept was to create a risk management tool that allows producers to protect their farm investment (equity) from adverse and catastrophic economic conditions. The MPP's original premiums were based on the same methodology used to develop premiums for the insurance products. They were developed on actuarial principles based on actual prices, feed costs and margins, and were fixed at a rate that reflected a particular period of time of higher feed cost and lower milk prices. Since the market changes often and MPP premiums are fixed, it is imperative that those premiums be calculated to incentivize increased participation, otherwise producers are less likely to buy meaningful levels of MPP coverage.

POSITION: Premiums should be adjusted 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

A. ISSUE: MPP currently makes margin evaluations and potential payments on a bimonthly basis. During the farm bill deliberations, Congress determined that monthly payments would increase the cost of the program significantly – an assessment that has subsequently been proven wrong. NMPF's analysis indicates that monthly calculations would have increased average payments by, at most, \$0.02 per hundredweight during 2000-2016, and thus would have little effect on program costs while making the program more effective and timely for participating producers.

POSITION: MPP payments should be determined on a monthly basis, rather than bi-monthly.

B. ISSUE: When the MPP was created, the determination of the sign-up deadline was left to USDA and not prescribed in the legislation. The intent of Congress was to ensure that producers would not be able to game the program by having detailed market information for the coming year. This was the main reason the sign-up deadline was placed in early autumn. However, experience with the program's operations to date clearly indicates that this concern is without merit. In reality, producers having more futures market information helps them make more informed decisions.

POSITION: MPP should provide producers with greater flexibility in signing up for coverage toward the end of the year prior to the calendar year for which they are seeking coverage.

4. EXPANSION AND COMPATIBILITY OF LGM WITH MPP

ISSUE: NMPF's members concluded that the MPP should fall under the Title I Farm Service Agency program, without any payment caps, instead of the Risk Management Agency (RMA). The RMA administers and regulates crop insurance policies that are sold and serviced by several private insurance companies. RMA develops and/or approves premium rates, administers premium and expense subsidies, approves and supports products, and provides reinsurance for the companies that sell RMA-approved insurance products.

RMA has a dairy program, the Livestock Gross Margin (LGM), which has worked well for those producers who have utilized it. Unfortunately, Congress decided that producers who participate in the MPP cannot utilize the LGM program for the balance of the farm bill's life. This has created a disadvantage for dairy farmers compared to other agriculture sectors that have more federal agricultural policy tools available.

POSITION: Although further analysis is required, NMPF recommends that the LGM should be incorporated as part of our farm bill request to Congress, with the goal of significantly expanding the cap for dairy and ensuring that the LGM works in a complementary manner with MPP.