October 11, 2017

Farm Bill Primer: Dairy Safety Net

The 2014 farm bill (P.L. 113-79) made significant changes to the structure of U.S. dairy support programs by repealing the Dairy Product Price Support Program (DPPSP), the Milk Income Loss Contract, and the Dairy Export Incentives Program. Instead, the bill established two new programs—the Margin Protection Program (MPP) and the Dairy Product Donation Program (DPDP).

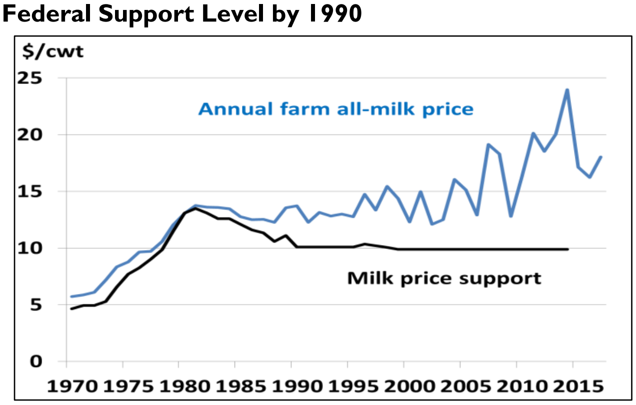
Many dairy stakeholders believe MPP has not functioned as envisioned and are looking to the 2018 farm bill to adjust the program or find alternatives that strengthen the safety net for milk producers.

Prior Dairy Policy

The federal policy goal has been to support producer incomes by supporting the farm price of fluid milk. However, fluid milk is highly perishable. As a result, federal programs have supported milk prices indirectly by offering to buy storable dairy products (e.g., powdered milk, butter, or cheese) at support prices set in fluid-milk equivalents.

Federal dairy price supports were first established in 1949 and were modified in subsequent legislation, including the 2008 farm bill (P.L. 110-246), which established the DPPSP, which indirectly supported the farm price of fluid milk at a fixed $9.90 per hundred pounds (hundredweight or cwt) through government purchases of dairy products from processors.

Figure 1. Milk Prices Moved Well Above Previous Federal Support Level by 1990

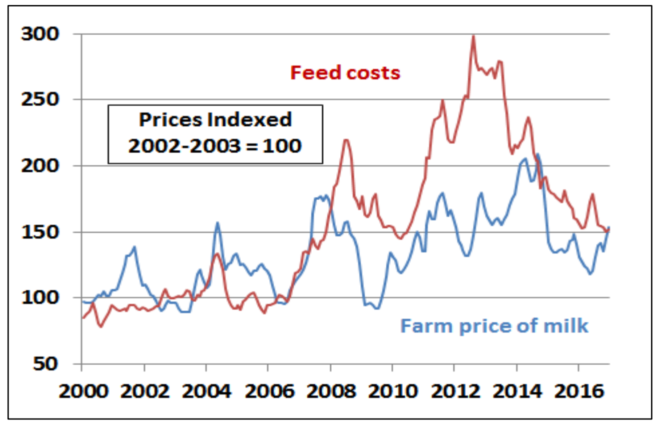


Source: Compiled by CRS from USDA prices.

Escalating Feed Costs Worry Producers

Federal dairy price supports were moderately effective until about 1990, when the farm price of milk began to trend well above the fixed support price (**Figure 1**). This left milk producers vulnerable to volatile milk prices and rapid rises in feed costs—the primary cost component of milk production (**Figure 2**). Following a severe decline in milk prices in 2009 that caused widespread economic hardship in the U.S. dairy sector, the dairy industry advocated that federal dairy support shift away from price supports and toward guaranteeing some portion of the margin between milk prices and feed costs. This shift was formalized in the 2014 farm bill.

Figure 2. Feed Costs Outpaced Milk Prices During 2008 to 2014



Source: Compiled by CRS from USDA data.

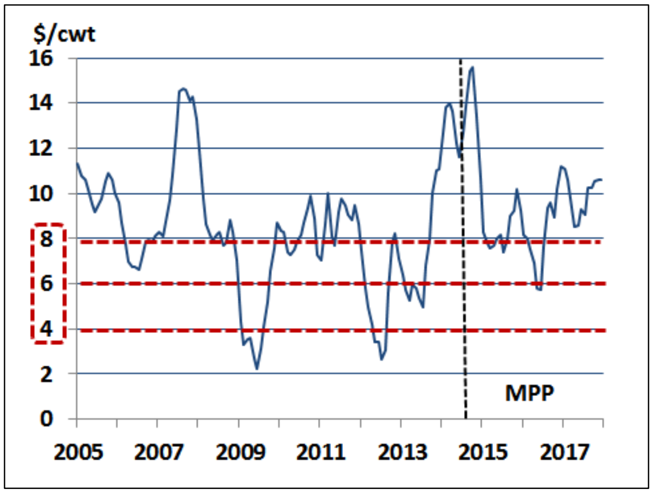
Dairy Margin Protection Program (MPP)

MPP is a voluntary program that makes payments to participating farmers when a formula-based national margin—calculated as the national average farm price for all milk minus a national average feed ration cost—falls below a producer-selected insured margin that ranges from $4.00/cwt to $8.00/cwt in $0.50/cwt increments for two months (**Figure 3**). MPP payments are based on farm-level production history and a producer-selected coverage level that ranges from 25% to 90% of production—the product of these two items yields the covered production history (CPH).

Producers must pay an annual administrative fee of $100 for each participating dairy operation and a premium that rises steadily with higher margin protection levels, starting at the $4.50/cwt margin level. The minimum $4.00/cwt margin (considered catastrophic) is fully subsidized and has no farmer-paid premium. Once producers sign up for MPP, they are covered under the program through 2018 (the duration of the farm bill) and must pay the administrative fee each year and any premium for coverage beyond $4.00/cwt.

The premium structure is further divided based on the volume of CPH: Lower premiums are charged for the first 4 million pounds of CPH, and higher premiums are charged on CPH above 4 million pounds. As an incentive to encourage participation by smaller dairy operations with CPH under 4 million pounds, Congress reduced premiums by 25% across the board for all margin protection levels except the $8.00/cwt level during calendar years 2014 and 2015.

Figure 3. Milk Price-Feed Ration Margin



Source: Compiled by CRS using USDA data.

Notes: The margin is the national average all-milk price per cwt minus the average cost of a feed ration needed to produce 1 cwt of milk.

MPP Effectiveness

Since MPP was implemented, the margin has remained mostly above $8.00/cwt (**Figure 3**). In 2015 and 2016, milk producers paid almost $96 million in administrative fees and premiums and received about $12 million in MPP payments. Given expected milk and feed prices through 2018, the margin is expected to remain above $8.00/cwt, again resulting in no MPP payments. As a result, 93% of dairy operations shifted coverage to the $4.00/cwt level in 2017, up from 44% in 2015. Many producers are dissatisfied with the program. Preliminary U.S. Department of Agriculture (USDA) data indicate that many have not selected a coverage level, which is reflected in lower enrollment in 2017. In addition, on August 31, 2017, when MPP enrollment and coverage selection opened for 2018, USDA announced that producers could opt out of MPP.

Table 1. MPP Proposal in Senate Appropriations

	Premiums per cwt		
Margin	Current Law 4M lbs	Proposed 5M lbs	Proposed >5M lbs
$4.00	$0	$0	$0
$4.50	$0.01	$0	$0.02
$5.00	$0.03	$0	$0.04
$5.50	$0.04	$0.01	$0.10
$6.00	$0.06	$0.02	$0.16
$6.50	$0.09	$0.04	$0.29
$7.00	$0.22	$0.07	$0.83
$7.50	$0.30	$0.09	$1.06
$8.00	$0.48	$0.15	$1.36

Source: S. 1603, §728.

Notes: In current law, premiums for coverage over 4 million pounds are the same as for premiums over 5 million pounds in the proposal.

Section 728 of the Senate-reported 2018 appropriations bill (S. 1603) adjusts provisions of MPP to make it cheaper for producers. The proposal would lower the premium discount for the first 5 million pounds and raise premium-free coverage to $5.00/cwt (see **Table 1**). Also, premiums for fewer than 5 million pounds would be significantly lowered. MPP payments would be based on the monthly average margin instead of the current two-month average. The intent behind these adjustments is to provide more support for milk producers.

The National Milk Producers Federation has proposed that the feed calculation be revised to restore the original calculation. The original formula was reduced by 10% to contain potential costs. Estimates show that the original formula would have resulted in a $1.00/cwt narrower margin and more payments during 2015 and 2016. Also, some have argued that the national feed value does not capture the true value of feed costs in many states and that local or regional feed costs should be used. However, analysis shows that using local feed costs would raise MPP costs substantially. H.R. 4896 (114th Congress), introduced in the House in 2016, would have required feed cost computations for each state.

The American Farm Bureau Federation has proposed that the USDA Risk Management Agency establish an insurance revenue protection program for dairy. Milk producers would choose a level of revenue to protect and, as with other crop insurance, USDA would provide a premium subsidy. The details have yet to be worked out and presented in bill form. Such a program could complement any adjustments Congress might enact to make MPP more effective as a safety net.

Dairy Product Donation Program (DPDP)

DPDP requires USDA to procure and distribute to targeted individuals from low-income groups certain dairy products when the milk price-feed cost margin falls below $4.00/cwt for two consecutive months. Products could not be resold into commercial markets. DPDP is intended to enhance dairy demand while strengthening milk prices and operating margins. To date, there have been no purchases under DPDP.

Other Dairy Support Programs

The 2014 farm bill extended several other dairy programs from the 2008 farm bill through FY2018, including the Dairy Forward Pricing Program, the Dairy Indemnity Program, and the budget provisions to develop export markets under the National Dairy Promotion and Research Program (i.e., the dairy check-off program). Other dairy programs not authorized under the farm bill—such as the Federal Milk Marketing Orders and dairy tariff-rate quotas—continue. For program details, see CRS Report R43465, *Dairy Provisions in the 2014 Farm Bill (P.L. 113-79)*.

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