

The MPP-Dairy Picture is Much Clearer Now



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While the MPP-Dairy program has been generally unpopular and has not provided much support to dairy producers since its creation, a combination of current market conditions and recent changes effective for 2018, have made the program much more attractive in the current year. Most importantly, premiums have been drastically reduced for up to 5 million lbs of coverage and enrollment for 2018 continues through June 1. Additionally, the program is retroactive to January and we already know the MPP-Dairy margin for January, February, and March. A rundown of all the changes can be found in my March article at the following link: <https://afs.ca.uky.edu/content/bipartisan-budget-act-2018-contains-changes-mpp-dairy-program>

Put simply, payments from MPP-Dairy are going to exceed premiums for 2018 for high coverage levels on covered milk up to 5 million lbs. I think this might be best illustrated by a quick example. Let's consider a dairy operation with a production history (based on the highest level of milk marketings from 2011 to 2013) of 3.333 million lbs (roughly 150 milking cows averaging 61 lbs per cow daily). I choose this level simply to make the math easy. At 90% coverage, this dairy operation could cover 3 million lbs or 30,000 cwt of milk. Table 1 below shows the current premium schedule that applies to 2018.

Table 1. MPP-Dairy Premiums by Coverage Level

Coverage Level	Premium per CWT (First 5 million lbs)	Premium per CWT (After 5 million lbs)
\$4.00	None	None
\$4.50	None	\$0.020
\$5.00	None	\$0.040
\$5.50	\$0.009	\$0.100
\$6.00	\$0.016	\$0.155
\$6.50	\$0.040	\$0.290
\$7.00	\$0.063	\$0.830
\$7.50	\$0.087	\$1.060
\$8.00	\$0.142	\$1.360

If this dairy operation chose to cover 90% of their production history at the \$8 margin level, they would be covering 3 million lbs. Since that falls under the 5 million tier 1 level, they would be covering 3 million lbs at \$0.142 per cwt. This amounts to \$4,260 in premium, plus they would pay the \$100 enrollment fee. In total, participation costs would be \$4,360.

Now, 2018 is unique because enrollment runs through June 1st, but is retroactive back to January. So, we already know the MPP-Dairy margins and associated payments for the first three months of the year. The upper part of table 2 shows margins and payments for January, February, and March of 2018. As can be seen, no payment would be made for January, but

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payments would be made for both February and March totaling \$5,875. Even after subtracting 6.6% for sequestration, this equates to nearly \$5,500. Simply put, payments for February and March alone exceed enrollment cost for this dairy operation by more than \$1,100. It is also important to note that coverage would still be in place for the remaining 9 months of the year. So, while February and March payments already exceed enrollment costs for this dairy, additional payments are extremely likely for 2018.

Table 2. MPP-Dairy Margins, Payments, and Enrollment Costs
January through March 2018, \$8 Coverage on 3 million lbs

	January	February	March	Total Through March
US All Milk	\$16.10	\$15.30	\$15.60	
MPP Feed Cost	\$7.98	\$8.42	\$8.83	
MPP Margin	\$8.12	\$6.88	\$6.77	
Payment per cwt	None	\$1.12*	\$1.23*	
Total	None	\$2,800	\$3,075	\$5,875
	Payments through March			\$5,487.25**
	Enrollment Cost for year			\$4,360.00
	Net Gain through March			\$1,127.25

Assumes 90% coverage, at the \$8 margin level, for a dairy farm with production history of 3.333 million lbs.

*This is paid on 1/12 of production history (30,000 cwt / 12 = 2,500 cwt)

**Estimated payment is reduced by 6.6% for sequestration (\$5,875 x 93.4%)

While the scenario described above is a useful illustration, it does provide estimates for a very specific situation and only includes payments that are known with certainty. Fortunately, a very good decision tool is available through the FSA website that allows producers to look at projected payments for all of 2018 based on milk and feed price expectations for the rest of the year. Running the scenario above through that tool suggests that MPP-Dairy payments are likely to exceed enrollment costs by more than \$10,000 by year's end. While this is not certain, there is no question that payments will exceed enrollment costs for dairies that enroll 5 million lbs or less in the MPP-Dairy program for 2018. The decision tool can be found at the following link: <https://www.fsa.usda.gov/programs-and-services/farm-bill/farm-safety-net/dairy-programs/mpp-decision-tool/index>. I would encourage every dairy producer to spend a little time with this tool by entering their specific production history and examining expected payment at various coverage levels. However, my recommendation is pretty simple for 2018. I would enroll up to 5 million lbs at the \$8 coverage level.