

Bipartisan Budget Act of 2018 Contains Changes for MPP-Dairy Program



College of Agriculture,
Food and Environment
Cooperative Extension Service

By: Kenneth H. Burdine, UK Extension Agriculture Economist

The Margin Protection Program for Dairy (MPP-Dairy) was established as part of the 2014 Farm Bill. Overall, the program has been very unpopular as few producer have received payments from participation and many have questioned whether the program provides an adequate safety net for the dairy sector. There were some pretty significant changes made to the MPP-Dairy program as part of the Bipartisan Budget Act of 2018 and I wanted to quickly highlight some of those.

Changes to MPP-Dairy Program for 2018

- The lower Tier I premium rates now apply to the first 5 million lbs. of coverage, rather than the first 4 million lbs. So, more lbs. can be covered at the lower rate.
- Premium rates have been significantly lowered for Tier I. There is now no premium cost for coverage up to \$5 per cwt and major premium reductions were made across all coverage levels. Previous and modified premium levels can be seen in Table 1.
- Margin calculations and payments are now made monthly, rather than bi-monthly.
- Enrollment in the program now occurs on an annual basis.
- Limited resource, beginning, veteran, and socially disadvantaged farmers are now exempt from the administrative fee.
- Dairy producers have until 90 days after passage of the act to enroll for 2018.

These changes to the program are significant and I do think it will make the program somewhat more attractive to dairy producers. However, it is important to understand that available coverage levels (\$4 to \$8) have not changed. So, with the exception of moving to monthly payments, the general magnitude and frequency of payments will not change. There continues to be discussion of dairy policy that will pertain to the next farm bill.

The changes in premiums are likely to have the most significant impact on dairy producers, especially those that operate smaller dairies. As can be seen in Table 1, the reductions in premium are very significant. For the highest \$8 coverage level, premium levels were reduced by roughly 70%. Additionally, there is no premium for the \$5 coverage level and the \$6.50 coverage level can now be purchased for \$0.04 per cwt. So, it is going to cost much less to purchase buy-up coverage for 2018.

Finally, I wanted to quickly speak to the changes in enrollment. For 2018, producers have until 90 days after passage of the act to enroll. This means that producer can wait until well into 2018 to make enrollment and coverage decisions. By that time, we should know the MPP-Dairy margin for January through March. So, producers will have a lot of price information when

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they make this decision. Similarly, the movement towards annual enrollment should allow producers to utilize the program when it is attractive and use other strategies when it is not. This added flexibility is an advantage that is worth taking note of.

Table 1: Margin Premiums by Coverage Level on First 5 million lbs. Covered

Coverage Level	Premium per CWT (Previous)	Premium per CWT (Modified for 2018)
\$4.00	None	None
\$4.50	\$0.010	None
\$5.00	\$0.025	None
\$5.50	\$0.040	\$0.009
\$6.00	\$0.055	\$0.016
\$6.50	\$0.090	\$0.040
\$7.00	\$0.217	\$0.063
\$7.50	\$0.300	\$0.087
\$8.00	\$0.475	\$0.142

**Premiums for Tier II, which now apply to pounds covered exceeding 5 million, remain unchanged*