

How Would MPP Payments Have Compared to MILC?

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MPP makes payments to dairy producers based on a milk-feed margin. How would MPP payments per hundredweight compare to historical MILC payments?

The Margin Protection Program (MPP) provides an important tool for dairy producers to manage risk. However, it replaces the MILC program, which also provided payments to dairy producers when milk prices relative to feed prices were below a specified threshold. A common question is how MPP payments compare to those under MILC. This is not an easy question to answer because the structure of the programs and the decisions made by dairy producers are quite different. One major difference is that MILC paid only a percentage (38-45%) of the difference between the feed-adjusted trigger and the Boston Class I price. MPP will pay dollar for dollar the difference between the coverage level and the national MPP margin.

However, we can approximate the comparison by looking at payments per hundredweight of the “production history” (PH) defined under the MPP program, making some assumptions about the size and MPP participation decisions of farms.

We consider three farm sizes, 2.4 million lbs PH, 8 million lbs PH and 22 million lbs PH. The smallest of these corresponds to the production cap under MILC and would pay premiums only from the lower tier of MPP. The second two farms are significantly above the production cap for MILC and would pay MPP premiums from the higher-tier premium schedule if they covered a

significant proportion of their milk. We assume that all farms cover 90% of their production history and use the same margin coverage level for 2008 to 2013.

For the period 2008 to 2013, the MPP program with Catastrophic Coverage (90% of milk \$4 margin coverage) would have had an average net payment (indemnity payments less premiums) of \$0.11 per cwt of PH, which is less than the average value for MILC this period (Table 1). **For MPP coverage levels of \$6.50/cwt and \$8/cwt, the average net payments per cwt of PH are larger for MPP than for MILC, regardless of farm size.** These differences arise because in months when MPP makes payments, these tend to be substantially higher than MILC for \$6.50 and \$8.00 margin coverage—although they are offset by premium payments when margins are above covered levels (Figure 1). **We estimate that a \$5.50/cwt margin coverage under MPP would have provided a similar average net payment per cwt of PH to MILC during 2008 to 2013 for a PH below the MILC production cap.** However, these estimates do not account for the impacts of the MPP program itself on margins (MPP is likely to decrease margins if active, see MPP Decision Guide 14-01), so for similar market conditions in the future, MPP would provide larger net payments per cwt of PH than those estimated here.

Table 1. Estimated Net Payments for MPP and MILC during 2008 to 2013, Per Hundredweight of Production History

Farm Size (Production History)	MPP \$4 Coverage (\$/cwt)	MPP \$6.50 coverage (\$/cwt)	MPP \$8 coverage (\$/cwt)	MILC (\$/cwt)
2.4 mil lbs	0.11	0.57	0.81	0.36
8 mil lbs	0.11	0.49	0.45	0.27
22 mil lbs	0.11	0.42	0.17	0.10

NOTES: MPP values assume that 90% of production history is covered and the same margin value is covered for the entire time period. MILC values are calculated based on the proportion of total milk production covered under the payments cap (2.4 and 2.9 million lbs during MILC)

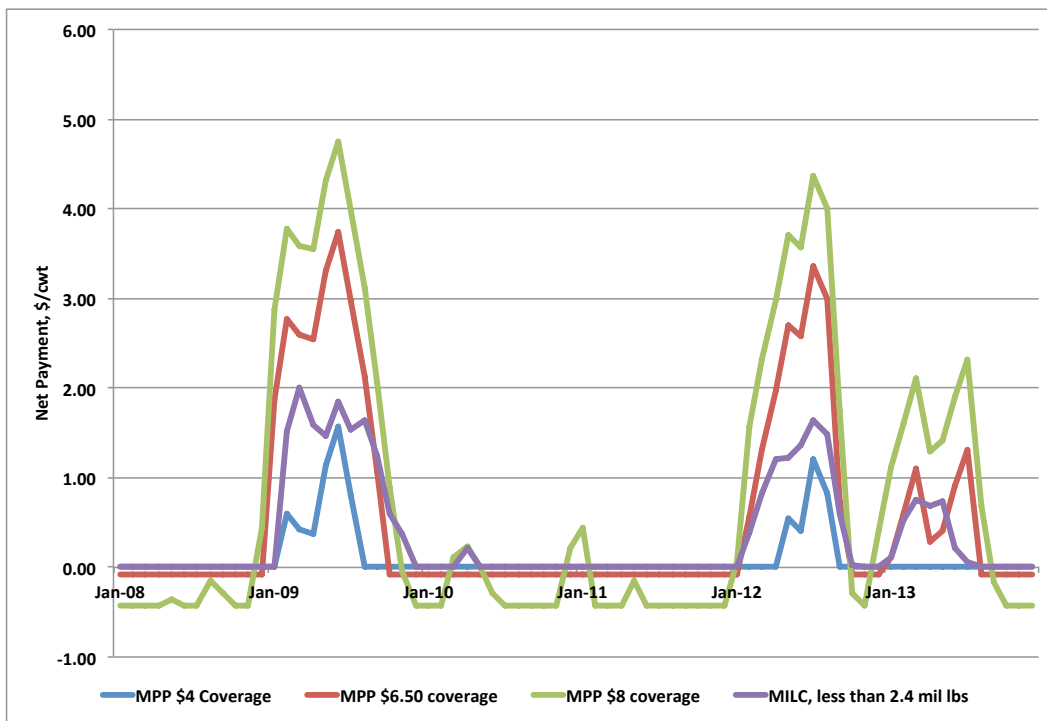


Figure 1. Estimated Net Payment Per Hundredweight, MPP with Three Coverage Levels and MILC, Farm with 2.4-million lb Production History, 2008 to 2013

For many farm sizes and MPP participation strategies, MPP pays more per cwt of production history than would MILC, particularly for larger farms.

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