Is MPP getting a facelift?

by Brittany Olson

Across the landscape of the dairy industry in the United States, from Maine to Oregon and all points in between, there seems to be a widely held sentiment among American dairy farmers that the USDA Margin Protection Program, or MPP, is not working.

MPP, widely touted by the USDA as the replacement program for Milk Income Loss Compensation (MILC) as a result of the 2014 Farm Bill, seeks to compensate dairy farmers for financial losses based on a set formula with current milk prices and feed costs as weighing factors.

Farmers are able to decide on purchasing varying coverage levels per hundredweight of milk. However, because losses in crop prices have coincided with depressed milk prices, many dairymen – particularly those who grow their feed – feel that MPP has been nothing short of a bust.

Marin Bozic, assistant professor in dairy foods marketing economics at the University of Minnesota, is hosting a town hall forum at the 2016 Minnesota Milk Producers Association Dairy Conference and Expo.

"We'll be discussing what could happen in 2017, such as risk factors along with coverage levels and what producers might find feasible for their operation," said Bozic, who has conducted extensive research in dairy policy analysis, risk management and consumer demand analysis.

Bozic alluded to the consensus that MPP hasn't worked, understanding that farmers are frustrated by receiving little to no compensation for any losses incurred after milk prices dropped in 2015.

"Other than small payments issued in May and June of 2016, MPP hasn't paid anything," Bozic said.

The big question that remains, according to Bozic, is this: what do we do going forward, particularly with the 2018 Farm Bill looming on the horizon?

"The answer may lie in either MPP reform or replacing it with a different program in the new Farm Bill," said Bozic.

Bozic said that MPP was designed to be a simple and straightforward program that would reimburse farmers for income losses in extremely troubling and catastrophic years, such as the dairy price crash of 2009.

"If we look at MPP design, it's designed to be affordable in troubling circumstances like 2009, and also easy to understand," Bozic said.

The downside to such simplicity is that MPP ends up not being subsidized if the year ahead is forecasted to see reasonable milk prices.

"The tradeoff is that in order to make MPP a great program in years like this, you have to make it more complex," said Bozic.

In his presentation, Bozic will discuss the different proposals being brought forth in order to change MPP. One idea is to make the margin formulas regional.

"The reason lower margins persist in western states like California and Idaho is because of the industry structure. You see lower overhead costs but larger dairies that purchase the majority of their feed," said Bozic.

While different regions of the United States face different challenges unique to their geographic location, making the MPP formula take into account such differences would mean that some areas would receive payments while others would not.

"If you regionalize MPP, some regions may receive payments even before losses occur," Bozic said.

Another proposal is to adjust the MPP formula so that feed costs are higher.

"Yes, if feed costs were higher, more payments would be made. This wouldn't be a game changer, though," Bozic said.

Bozic's presentation, "Margin Protection Program at Half-Time: Do We Need an Overhaul?" begins at 8 a.m. on Wednesday, November 30 over breakfast. Because his presentation is a town hall forum as opposed to a lecture, Bozic encourages farmers to come with any questions or concerns they have about MPP.

"What I'm trying to do is give some insight into what may happen with MPP and help give a deeper perspective," said Bozic. "Because this year's MPP signup deadline has been moved back, this will give farmers a little bit of time to think about what they want to do next."