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Should the MPP Feed Ration be Increased by 10 Percent?

BACKGROUND

During 2016, the USDA all-milk price declined by 14 percent year-over-year and was down 40 percent from the record high levels of 2014. Similar to milk prices, national average feed costs also declined by nearly 30 percent from 2014 levels. These price movements partially offset one another and in 2015, the Dairy Margin Protection Program (MPP) triggered only for those purchasing the \$8.00 coverage level. \$730,000 was paid to 264 operations. About 24,000 dairy operations paid MPP premiums and administrative fees in 2015, but did not receive a payment. For the first half of 2016, MPP margins have fallen to a low of \$5.75 per hundredweight and have triggered \$11.2 million in payments at the \$6.00 coverage level and above. However, only 4,600 of the 24,292 dairy farmers participating in MPP during 2016 are likely to receive a program payment.

ISSUE

The current MPP feed cost formula was reduced by 10 percent by Congress and does not reflect actual feed costs.

OPTION: Increase the MPP feed ration formula by 10 percent

Require a 10 percent increase in the MPP feed ration formula. This restores the MPP feed ration to the value prior to the 10 percent reduction mandated by Congress in the 2014 Farm Bill. If the MPP ration formula had been 10 percent higher over the last one and a half years of the program, MPP margins would have been about \$1.00 per hundredweight lower than those announced by USDA.

MPP Feed Ration in the 2014 Farm Bill and if 10 Percent Higher			
	Corn Price (\$/bushel)	Soybean Meal Price (\$/ton)	Alfalfa Hay Price (\$/ton)
10% Higher Ration	1.1920	0.00817	0.0152
2014 Farm Bill MPP Ration	1.0728	0.00735	0.0137

Note: Values are multiplied by the feed prices to determine the national average MPP feed costs.

Increasing the feed ration coefficient by 10 percent will improve farmers' ability to manage risk by increasing the likelihood of program payments. For example, using the higher feed ration coefficients would have reduced MPP margins in 2015 and the first half of 2016 by a range of \$0.88 to \$1.01 per hundredweight. In turn, this would have increased total program payments.

Estimates using 2015 and 2016 sign-up data indicate program payments would have been about \$17 million higher and \$36 million higher (respectively) if the 10 percent increase had been in effect.