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Dairy Provisions in the Bipartisan Budget Act (P.L. 115-123)

The Bipartisan Budget Act of 2018 (BBA; P.L. 115-123) made important changes to the U.S. Department of Agriculture (USDA) dairy Margin Protection Program (MPP) and removed the cost cap on livestock insurance programs, which includes Livestock Gross Margin-Dairy (LGM-D). The changes are estimated to add more than $1.1 billion to the 10-year farm bill baseline, potentially increasing available safety net funds for dairy producers.

Review of MPP

MPP is a voluntary program established in the 2014 farm bill (P.L. 113-79) that pays participating dairy producers when a formula-based national margin—calculated as the national average farm price for milk minus a national average feed ration cost—falls below a producer-selected insured margin. The $4.00 per hundredweight (cwt) margin is considered the catastrophic (CAT) level. To participate at the CAT coverage level, dairy producers pay an annual $100 administrative fee and are then eligible to receive a payment on 90% of their milk production history, up to 4 million pounds, if the margin averages below $4.00 for the two-consecutive monthly periods of January-February, March-April, May-June, July-August, September-October, and November-December. In total, there are six possible payments during the year.

Producers may buy additional margin coverage up to $8.00 per cwt (see **Table 1**). To receive additional coverage, producers choose the level of margin coverage in $0.50 increments from $4.50 to $8.00 and also choose the percentage of milk production history to cover from 25% to 90%.

Table 1. MPP Premiums per cwt

Margin	Tier I ≤4 million lbs	Tier II >4 million lbs
$4.00	$0	$0
$4.50	$0.010	$0.020
$5.00	$0.025	$0.040
$5.50	$0.040	$0.100
$6.00	$0.055	$0.155
$6.50	$0.090	$0.290
$7.00	$0.217	$0.830
$7.50	$0.300	$1.060
$8.00	$0.475	$1.360

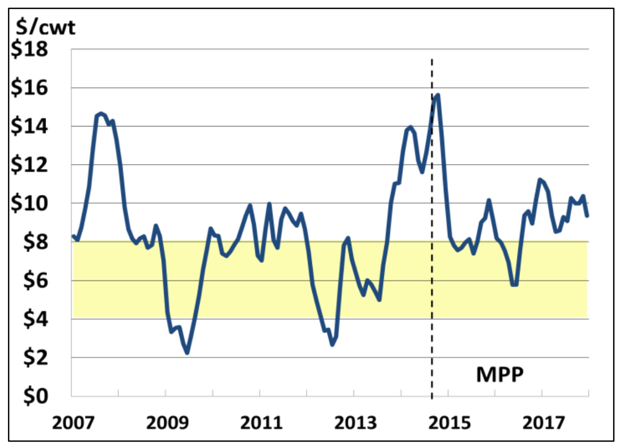
Source: 7 U.S.C. §9057(b)(2) and (c)(2).

Premiums for the additional coverage vary by production level. Producers with annual milk production of 4 million pounds or less pay Tier I premiums. Producers pay higher Tier II premiums to cover more than 4 million pounds. The difference between the two tiers is significant: Tier I premiums range from 1¢ to 48¢ per cwt, Tier II premiums from 2¢ to $1.36 per cwt.

MPP Effectiveness

Since MPP was implemented, the margin has remained mostly above $8.00 per cwt (**Figure 1**). During 2015-2017, milk producers paid about $100 million in administrative fees and premiums and received about $12 million in MPP payments. In 2017, 93% of dairy operations shifted coverage to the $4.00 per cwt level compared to 44% in 2015. Preliminary USDA data indicate that many dairy producers did not select a coverage level last year, which is reflected in lower enrollment in 2017. In addition, in August 2017, when MPP enrollment and coverage selection period opened for 2018, USDA announced that producers could opt out of MPP, forgoing the $100 payment.

Figure 1. Milk Price-Feed Ration Cost Margin



Source: Compiled by CRS using USDA data.

Notes: The margin is the national average All Milk price per cwt minus the average cost of a feed ration needed to produce 1 cwt of milk.

Many dairy stakeholders are dissatisfied with MPP and believe the program has not functioned as envisioned. They have been looking to the upcoming 2018 farm bill for adjustments to MPP or other alternatives that would strengthen the safety net for milk producers.

Amended MPP

Section 60101(b) of the BBA amended statute in several significant ways to partly address dairy producer concerns ahead of the next farm bill.

- The BBA changed the MPP margin calculation to a monthly basis from a two-month average. Producers would receive payments each month the milk-feed cost margin falls below covered levels.
- The BBA raised the catastrophic coverage from $4.00 to $5.00 per cwt and increased the top limit on the Tier I production level to 5 million pounds from 4 million

pounds. This level provides margin payments on 90% of the first 5 million pounds of milk at the cost of the $100 annual administrative fee.

- The BBA reduced Tier I premiums for additional margin coverage (see **Table 2**). Additional coverage may be purchased in $0.50 increments from $5.50 to $8.00 per cwt at significantly lower rates. Tier II premiums for milk production above 5 million pounds are unchanged.

Table 2. MPP Premiums per cwt in BBA

Margin	Tier I ≤5M lbs	Tier II >5M lbs
$4.00	$0	$0
$4.50	$0	$0.020
$5.00	$0	$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

Source: Tier I: BBA, §60101(b)(4); Tier II: 7 U.S.C. §9057(c)(2).

- The BBA removed the $100 annual administrative fee for limited resource, beginning, veteran, or socially disadvantaged farmers.
- The BBA extended the 2018 signup period for MPP. USDA is to provide at least 90 days after enactment for producers to participate, or for producers already in MPP, to change their coverage.

The Congressional Budget Office (CBO) projects that the revised MPP will cost $794 million over a 10-year period (FY2018-FY2027). The projected cost in 2018 is $47 million.

LGM-Dairy

Separate from and predating MPP, USDA Livestock Gross Margin (LGM) insurance policies allow cattle, dairy, and swine producers to manage price risk by insuring the margin, or difference, between the market value of the commodity and the feed costs. The LGM program was authorized in the Agricultural Risk Protection Act of 2000 (P.L. 106-224). It included a $20 million cost limitation on livestock insurance programs. LGM-D policies became available in 2008.

Dairy producers are the primary users of LGM insurance policies, accounting for 89% of livestock gross margin liability in 2017. Dairy margins are calculated using futures contract settlement prices for milk, corn, and soybean meal. However, many dairy stakeholders believed the $20 million cost cap on livestock insurance limited the scale of the program for producers to manage risk and have advocated for an increase or removal of the cap.

Section 60101(c) of the BBA amends Section 523(b)(10) of the Federal Crop Insurance Act (7 U.S.C. 1501 *et seq.*) to remove the $20 million cost limitation on livestock insurance programs administered by USDA. CBO projects the cost of removing the cap to be $308 million over 10 years. The projected cost for 2018 is $0 but ranges from $31 million to $37 million in the succeeding nine years.

Farm Bill Considerations

Dairy stakeholders may look to the next farm bill as an opportunity to make further adjustments to dairy support programs within the newly expanded baseline. The focus is likely to be on margin levels, premium rates, and feed costs.

CRS analysis of recent milk and feed prices projected by USDA indicate that the MPP margin may drop below $8.00 per cwt, or $7.50 per cwt, only during the first half of 2018 and be above $8.00 per cwt for the remainder of the year. Under this situation, only producers who buy the highest margin levels may receive payments in 2018. Each dairy producer would need to consider whether potential payouts would cover premiums that are paid for the entire year. Some dairy stakeholders have argued that a larger margin than $8.00 per cwt should be covered under MPP.

Some dairy stakeholders, particularly larger dairies, believe MPP offers little support because of the low production limits of 4 million pounds and now 5 million pounds. A 220-head herd produces about 5 million pounds of milk, but over 70% of U.S. milk cows are in herds larger than 200 head. Producers with large herds believe that MPP offers little in the way of a safety net unless they opt to pay the relatively high Tier II premiums. If Tier II premiums were lower, larger dairy producers may find MPP more attractive. The BBA provided no premium relief at the Tier II level.

Many dairy producers are concerned that the MPP feed formula underestimated the cost of feed. The feed formula proposed by the National Milk Producers Federation in 2012 was 10% higher than enacted in the 2014 farm bill. The farm bill enacted a lower feed cost formula to contain potential MPP costs. Under the original proposed formula, margin calculations would have been smaller by about $1.00 per cwt, resulting in more payments. Some have also proposed local or regional feed formula, but these would likely be costly.

Finally, the BBA does not amend the MPP provision (7 U.S.C. §9054(d)) that restricts dairy producers to use either MPP or LGM-D but not both. Stakeholders argue that this restriction should be lifted to give dairy producers additional opportunities to manage milk price risk through insurance programs as well as safety net programs.

See CRS Report R43465, *Dairy Provisions in the 2014 Farm Bill (P.L. 113-79)*, and CRS In Focus IF10750, *Farm Bill Primer: Dairy Safety Net.*

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