Is the Margin Protection Program (MPP) suitable for Europe as well?

EMB position on the American insurance system *for the milk sector*

The Margin Protection Program in the USA is an insurance system for the milk sector, which is partly financed by contributions and is also subsidised by the state. It aims to provide milk producers with some degree of compensation when faced with a decline in income due to shrinking margins. By introducing this program, the USA has underlined the economic importance of the milk sector.

Even though the MPP has some very interesting and beneficial individual elements, it would not be suitable for the European milk sector as a whole. This is because the key element of reducing production volume during times of crisis does not figure in this instrument.

In continuation, you have a detailed description of the individual elements of the MPP and why it is not suitable for the EU dairy market.

How does the MPP work?

Producers can use the Margin Protection Program to insure their margins. If the real margins fall below the target margin selected by them for a consecutive two-month period, they receive benefits from the MPP.

Key elements of the MPP:

- All farms that produce milk commercially are eligible, regardless of size or production.
- Producers can decide how much of their **(assigned) production** they wish to cover (25-90% possible). They can also choose the margin level, which is then set as the **target margin** (from 4 to 8 dollars). Higher the cover, i.e. higher the chosen margin and percentage of the insured volume, higher the insurance premium to be paid by the producer.
- **Assigned production history**: Farms will be assigned a production history equal to their highest milk production in either 2011, 2012 or 2013. Participants will be required to document their production history at sign- up.
- Production histories will increase yearly based on the average growth in national milk production. For example, if annual U.S. milk production were to increase by two percent, each producer's production history will also increase by two percent for the coming year. Any production expansion above the national average cannot be insured.
- A reference monthly margin will be calculated by the Agriculture Department using data from its National Agricultural Statistics Service (NASS). The reference margin will be calculated using the formula: U.S. all-milk price minus national average feed costs.
- If the reference margin is below the **target margin** chosen by the producer for a consecutive two-month period, the producer is paid the difference for the insured percentage of his production.
- Furthermore, the U.S. Department of Agriculture's Dairy Product Donation Program will be activated when the reference margin falls below 4 dollars for a consecutive two-month period. Within the framework of this program, milk products will be bought by the state and donated, for example, to food banks or as food donations. This will continue

till the margin has, once again, risen above the 4-dollar mark - for a maximum period of three months.

MPP for Europe as well?

As is often the case, the MPP must also be regarded with a nuanced perspective.
Some positive elements - like the calculation of margins on the basis of national averages or the Donation Program - show parallels with the EMB's Market Responsibility Programme (MRP). The MRP also refers to data on national averages to calculate the market index as well as to public measures to support private storage during the first phase (early warning phase), thus relieving the pressure on the market.
However, though the MPP uses elements that figure in the EMB's Market Responsibility Programme, it does not really represent a comprehensive solution for the European milk sector. This is because of the following specific points:

- The MPP does not lead to any volume reduction. This can work in the United States as consumption there is on the rise. However, demand is not growing in Europe - which is why we would require volume reduction.

  -> If volume reduction were to be included - for example, producers would only receive their payments if they reduce their production volume - then one could reconsider the MPP and its suitability for the European milk sector.

- While calculating margins, the MPP only considers feed costs. However, cost of living is much higher in Europe and therefore total cost must be used for this calculation.

- If the producer has to pay a premium, these funds will end up being deducted from his production and investment budget.