
Dairy Policy Brief #3: Milk Income Loss Contract Program

What is the Program?

The Milk Income Loss Contract (MILC) program was initially authorized in the 2002 farm bill and extended with changes in the 2008 farm bill. The MILC program is a target price/deficiency payment program that makes direct payments to dairy producers when milk prices fall below the target price. The MILC target price is in reference to the Class I milk price at Boston. The minimum target is \$16.94 per hundredweight, but the target is adjusted upward if estimated dairy feed costs are above a specified base level. All dairy producers are eligible to receive 45 percent of the difference between the adjusted target price and the actual Boston Class I price in any month that prices fall below the adjusted target. This payment applies to all milk regardless of class use. However, MILC has an annual producer payment limit that is linked to production. Payments are restricted to the first 2.985 million pounds of milk marketed in any fiscal year (Oct. – Sept.). Marketings in months when no payments are made do not count against the cap, and producers may elect to “start the clock” any month of the fiscal year.

What are the issues?

- **Soft price floor.** MILC does not create a floor on receipts, as the payment rate compensates for only part of the difference between the target and market Class I price. Other dairy target price/deficiency payment approaches that have been discussed generally propose a more solid price floor, but at a level that is lower than the target price set under the MILC program.
- **Production caps.** The production cap feature of the MILC program has proven to be a very effective way to limit program payments compared to the dollar limits used in other commodity programs. But targeting of benefits to small dairy producers has made this program unpopular with larger dairy producers and areas of the country dominated by large dairies. Using the 2009 average U.S. milk yield of 20,576 pounds per cow, only dairy farms with fewer than 145 dairy cows are currently eligible to receive MILC payments on all milk sold. The U.S. average dairy herd size was 141 cows in 2009. As milk yields and dairy operation sizes grow, the percentage of annual U.S. milk production eligible for full MILC payments declines. Based on changes in the distribution of dairy operations by size, the amount of milk eligible for full MILC payments has fallen by more than 10 percent since the program was initiated in December 2001.
- **Milk supply impact.** The MILC program tends to lengthen periods of low milk prices, since program payments supplement dairy income to keep some producers—especially smaller farmers—in business when they might otherwise have exited dairying. Raising the production cap would further lengthen periods of low prices.
- **Program costs.** MILC program costs totaled \$3.5 billion from inception through February 2010. The January 2010 Congressional Budget Office baseline estimates the cost at \$159 million in FY 2010, \$80 million in FY2011 and \$66 million in FY2012. Program expenditures in 2009 were about \$900 million, much larger than expected when MILC was reauthorized (and modified) in the 2008 farm bill because of very low milk prices during most of 2009. Given the magnitude of the federal budget deficit and related cost-cutting efforts, the program could come under scrutiny if future outlays remain large. Moreover, MILC payments add dollar-for-dollar to the U.S. Aggregate Measure of Support (AMS) under WTO rules, which could become an issue in negotiating AMS reductions within a new WTO agreement.