



Agricultural and Resource Policy Report

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FOOD, CONSERVATION AND ENERGY ACT OF 2008 AN OVERVIEW OF TITLE II: CONSERVATION PROGRAMS Erin Hicks and Andy Seidl¹

The Food, Conservation and Energy Act of 2008, P.L. 110-246, was passed on June 18th 2008, over the veto of President George W. Bush. Despite protracted debate, the FCEA represents an evolutionary change in farm legislation relative to previous so called Farm Bills. The FCEA consists of fifteen titles: (1) commodity programs, (2) conservation, (3) trade, (4) nutrition, (5) credit, (6) rural development, (7) research and related matters, (8) forestry, (9) energy, (10) horticulture and organic agriculture, (11) livestock, (12) crop insurance and disaster assistance, (13) commodity futures, (14) miscellaneous programs, and (15) trade and tax provisions. The estimated budget for this legislation is \$307 billion over FY2009-12. Although the Commodity Title is, perhaps, emblematic of the Farm Bill, some 68% of the total budget is allocated to the Nutrition Title, which includes such programs as the Food Stamp Program, the Emergency Food Assistance Program, “Hunger-Free Community” Grants, and the Buy American program. Despite continued adjustments in the final rules and funding levels, many of the details of this far-reaching legislation are now known. This overview document will examine the programs under Title II: Conservation of the 2008 Farm Bill, representing some 11% of anticipated expenditures.

Conservation Programs Chronology

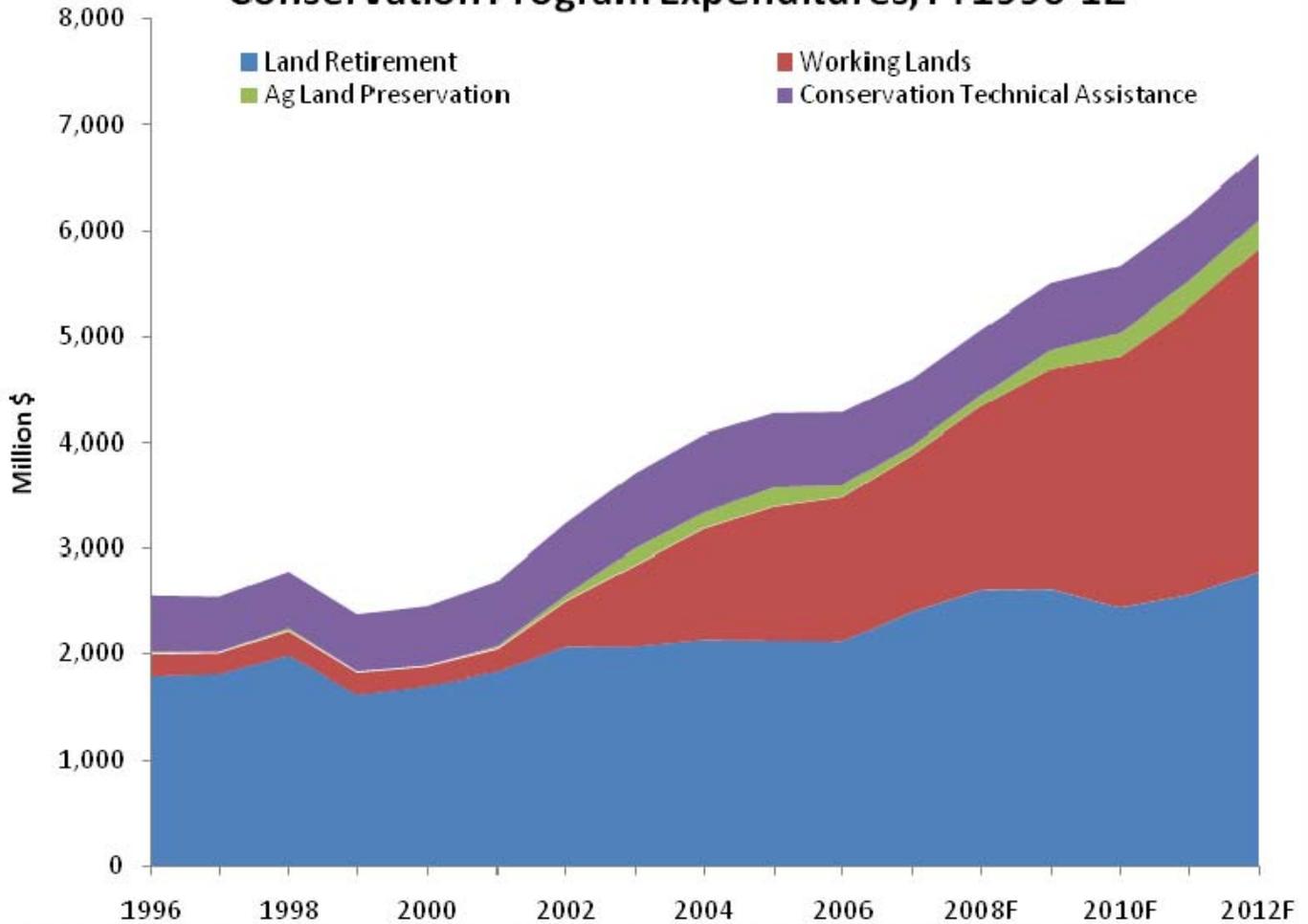
The Food, Conservation and Energy Act of 2008 (2008 Farm Bill) presents a portfolio of programs for managing conservation objectives. The Conservation Reserve Program (CRP) is the most well-established, having existed since 1985. This program combines supply-control and land retirement policy tools. The 1990s saw increased emphasis on conservation programs in the Farm Bills and a shift away from supply-control to land retirement and working lands programs. The Wetlands Reserve Program (WRP) has been a part of the federal conservation portfolio since 1990. Working lands programs started in 1996 with the Wildlife Habitat Incentives Program (WHIP) and the Environmental Quality Incentives Program (EQIP). The Farmland Protection Program (FPP) (Farm and Ranchland Protection Program in 2002), an agricultural lands preservation program, also began in 1996. The latest additions are the Conservation Stewardship Program (CSP) (nee Conservation Security Program) and Grasslands Reserve Program (GRP), both dating from 2002.

The chart on page 2 shows expenditures and projected expenditures by policy type for fiscal years 1996-2012.

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Conservation Program Expenditures, FY1996-12*



*FY2008-2012 expenditures are forecast based on Congressional Budget Office projections

Source: Aillery (2006); updated data from U.S. Department of Agriculture, Economic Research Service

Overall, conservation program expenditures increased 79 percent between the 1996 Farm Bill (\$2.56 billion in fiscal year 1996) and the 2002 Farm Bill (\$4.59 billion in fiscal year 2007). Land retirement programs were the initial focus in conservation programming. Funding for these programs accounted for approximately 70 percent of total conservation expenses until fiscal year 2001. With the 2002 Farm Bill, funding for land retirement programs continued to increase in nominal terms but became a smaller share of total expenditures; such programs were only 52 percent of total expenditures in fiscal year 2007.

Working lands programs were introduced in 1996 and garnered approximately \$200 million in annual funding from fiscal years 1996-2001. By fiscal year 2007, working lands programs were worth \$1.5 billion. Funding for working lands programs is forecast to be \$11.8 billion total over fiscal years 2008-2012. This is, on average, 61 percent higher than the fiscal year 2007 funding level. Farmland preservation programs (the GRP and FPP) have also enjoyed a growing proportion of the conservation spending.

The table on page 3 illustrates the relative size of the main conservation programs:

Program	Projected Average Annual National Funding, 2008-2012 (millions)	Geographic Emphasis	Colorado 2007 Funding (millions)	Colorado 2007 Acres
<i>Land Retirement Programs</i>				
CRP	\$2,187	Central	-	-
WRP	\$419	Midwest	-	11,200
<i>Working Lands Programs</i>				
WHIP	\$142	West, Northeast	\$3.46	64,530
EQIP	\$1,446	Midwest, West	\$171	3,335,703
CSP	\$758	Midwest	\$16.10	653,207
<i>Preservation Programs</i>				
FPP	\$149	East	-	39,204
GRP	\$75	Midwest	-	39,974

Land Retirement Programs

Among conservation programs, land retirement programs achieve the greatest environmental benefit per acre. They are most suited to acreage on which the environmental costs are high relative to benefits from production. This typically occurs for one of two reasons: either the land has low productivity when used for crops, or the environmental benefits are especially high in an original or non-cropped state. Such benefits include wildlife habitat, carbon sequestration, and improved water quality from reduced runoff. This is especially important on the most environmentally sensitive acres. Other benefits to land retirement programs include ease of monitoring and enforcement, and benefits to wildlife species whose habitats require large continuous parcels of land. Land retirement programs may also function as supply control programs; they increase commodity prices by decreasing the amount of cropped acreage, thereby tightening the supply of the commodity and causing prices to rise.

There are also challenges to land retirement programs. For instance, they require comparatively greater program costs because the program payments are equivalent to renting the land at its full agricultural value. Furthermore, it may take more time and restoration cost to return the land to a state where the environmental benefits will reach desired levels. Benefits may be offset by slippage, where surrounding lands are

converted to cropland to make up for the land retired into the program. Any environmental benefits gained under such programs are transitory if the lands are returned to production at the conclusion of the program. Finally, retiring the lands from production reduces producer flexibility to respond to changing commodity market circumstances.

CRP

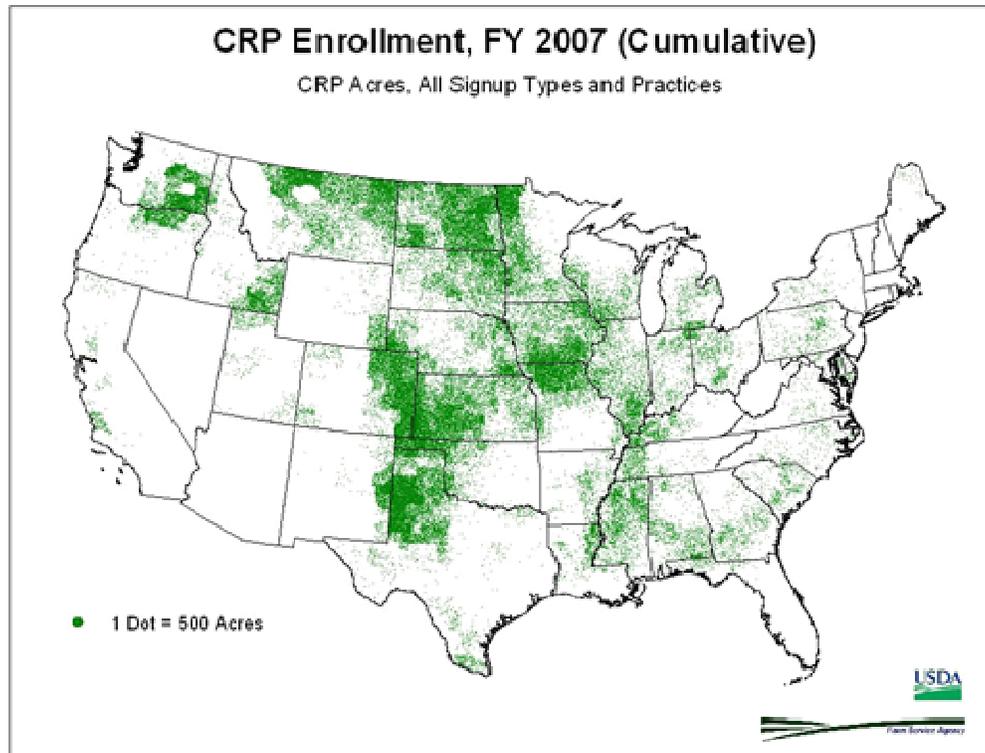
The Conservation Reserve Program (CRP) is both a supply control program and a land retirement program; it is a voluntary program designed to encourage farm owners and operators to retire environmentally sensitive farmland from production for a set amount of time, between ten and fifteen years. Participating producers receive a stream of income in the form of rental payments, while non-participating producers enjoy higher commodity prices from the restricted supply. The CRP was initially meant to remove land from production in the 1980s in order to counteract low commodity prices during the farm crisis. Less land to produce commodities meant fewer commodities on the market, resulting in higher prices. The CRP encourages the establishment of long-term resource conserving vegetative covers that reduce runoff, provide wildlife habitat, and help preserve groundwater quality. Examples include riparian buffers, field windbreaks, and grass strips.

The majority of current contracts for the CRP will expire in 2010. Producers have several options for what to do with lands under expiring CRP contracts. They may apply to re-enroll in the CRP. This option would maintain the environmentally beneficial practices instated under the CRP at no additional establishment cost. However, it would constrain the landowner's flexibility to respond to favorable market conditions, such as the current high commodity prices. Landowners with expiring contracts are now encouraged to enroll in working lands programs such as the CSP, GRP and FPP. Producers would retain some environmentally beneficial practices while returning to productive activity like haying or grazing. This is a good option for lands that are only marginally suited for cropping. Landowners may also choose to return the land entirely to production. In this case, environmental gains made under the CRP are undone. Producers may take advantage of the current high commodity prices. However, because lands eligible for CRP must be cropped in four of the six years prior to 2008, this means they have restricted the conditions under which they may decide to re-enroll in the CRP.

The map below shows cumulative CRP enrollment by acres in fiscal year 2007. CRP programs are concentrated in the central United States. Projected average annual funding for CRP during the 2008 Farm Bill (fiscal years 2008-2012) is \$2,187 million. Even though it is becoming a smaller proportion of conservation program funding, the CRP remains the largest conservation program by funding amount in the near term. For the 2008 Farm Bill, the CRP is approximately 1.5 times larger than EQIP, the next most-funded conservation program. For more information on the CRP in the FCEA of 2008, please visit <http://dare.colostate.edu/pubs/arpr08-01.pdf>.

WRP

The Wetlands Reserve Program (WRP) exists to help landowners cost-effectively address environmental concerns about natural resources, such as wetlands, wildlife habitat, water, and soil. This voluntary program provides financial incentives and technical assistance to landowners who agree to restore and protect wetlands by removing marginal lands from agricultural production.



Source: USDA FSA (2008).

The goal of the WRP is to maximize wetland functions, values, and wildlife habitat on all enrolled acres. Wetlands provide multiple beneficial functions, such as:

- fish and wildlife habitat provision
- sediment and chemical filtration that improves water quality
- flood reduction
- groundwater recharge
- biodiversity protection
- educational, scientific, and recreational opportunities

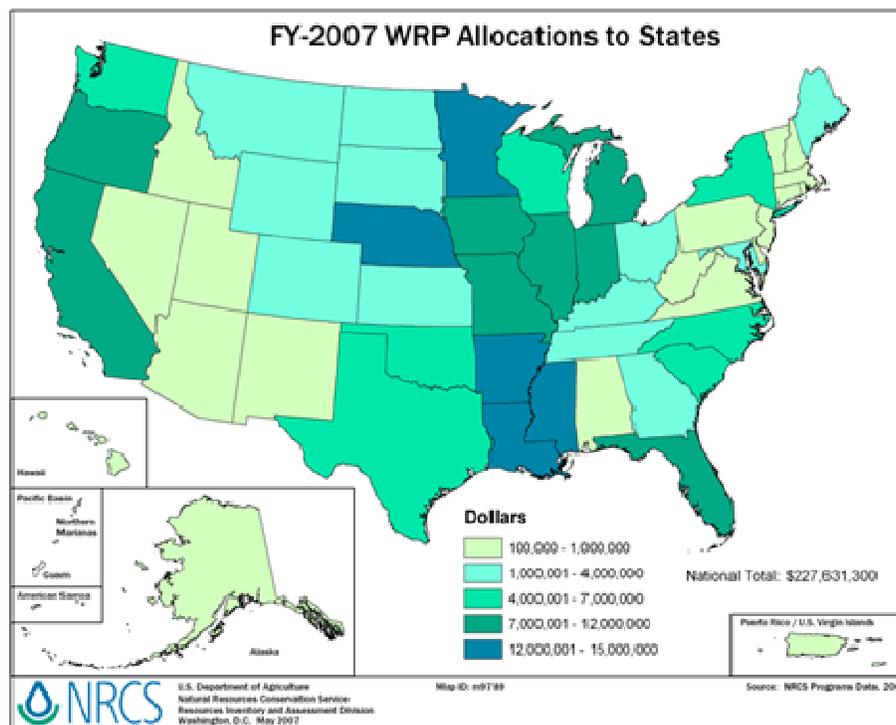
Accordingly, the program requires that at least 70 percent of the enrolled land be restored to the original natural condition; the remaining 30 percent may be restored to other-than-natural conditions.

The map below shows WRP allocations by state for fiscal year 2007. With average annual funding of \$419 million projected for fiscal years 2008-2012, WRP is the fourth-largest conservation program in the Farm Bill. For more information on the WRP in the 2008 Farm Bill, please visit <http://dare.colostate.edu/pubs/arpr08-02.pdf>.

Working Lands Programs

Working land programs often have greater environmental benefit per program dollar relative to land retirement programs because environmental practices can be improved on lands that lack sufficient incentive to remove them from production. Because those lands remain in production, payments to producers can be less than the full agricultural value of the land. Such programs can address a broad range of environmental concerns specific to particular areas, and therefore encompass an array of practices. These programs may help producers maintain the long-term productive capacity of the land. Additionally, they may help producers mitigate other regulation costs. Retirement of specific environmentally sensitive sections of land parcels (such as stream buffers) is also possible under working land programs without requiring that the entire parcel be retired.

There are also downsides to working lands programs. For instance, management for environmental purposes may compete with management for production purposes and the producer will have to allocate activities



accordingly. Some conservation practices also require technical support, which is not always readily available, to achieve proper design and implementation. Monitoring and enforcement of recommended practices are also more difficult on working lands than on lands that are retired from production.

WHIP

The Wildlife Habitat Incentives Program (WHIP) is a working lands program that encourages voluntary habitat conservation and rehabilitation on agricultural lands, especially those that are privately owned. WHIP provides up to 75 percent cost-share and technical assistance for these habitat programs through the USDA's Natural Resources Conservation Service (NRCS).

Participants create a wildlife habitat development plan, typically for five to ten years duration, which describes how they will preserve and improve habitat for target species. Based on this plan, the participant enters a cost-sharing assistance agreement with the NRCS for the duration of the project. The NRCS can use up to 15 percent of its funding for this program on plans 15 or more years in duration.

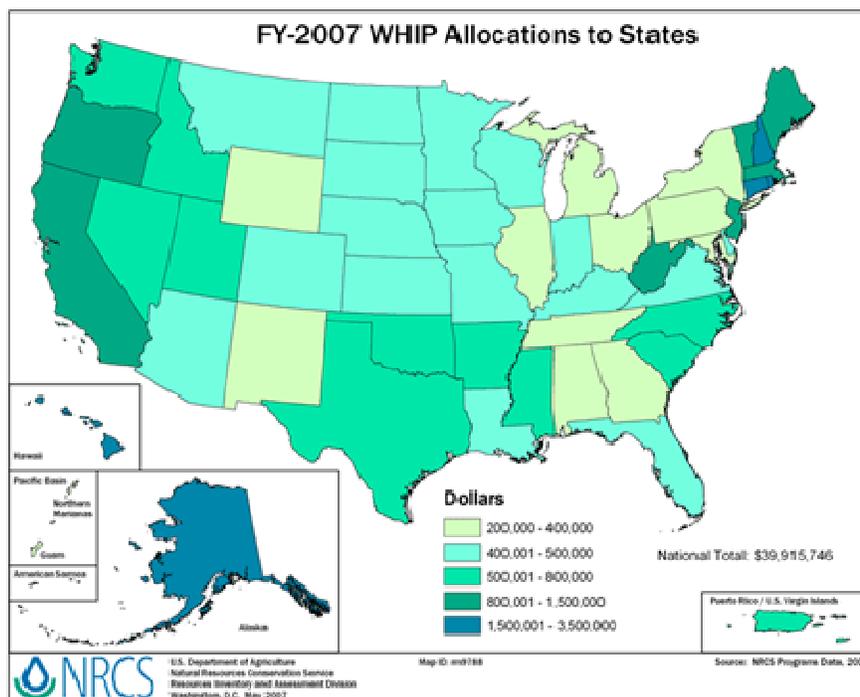
The map below shows WHIP allocations by state for fiscal year 2007. WHIP funding is estimated to

average \$142 million per year for fiscal years 2008-2012; this is smaller than all of the other programs except the GRP. More information on WHIP in the 2008 Farm Bill is available at <http://dare.colostate.edu/pubs/arpr08-03.pdf>.

EQIP

The Environmental Quality Incentives Program (EQIP) is a voluntary program designed to promote agricultural production and environmental quality as dual goals by aiding agricultural producers who face environmental threats to their lands. Under EQIP, the NRCS provides assistance to producers to optimize environmental benefits.

EQIP originated in the 1996 Federal Agriculture Improvement and Reform Act (FAIR) as a way to consolidate and organize the functions of several previous programs: the Agricultural Conservation Program, the Water Quality Incentives Program, the Great Plains Conservation Program and the Colorado River Basin Salinity Program. The NRCS administers EQIP, and the Commodity Credit Corporation (CCC) funds it. Areas of focus include improved water quality, reduced soil erosion, surface and ground water conservation, emissions reduction, rangeland improvement, and habitat conservation.



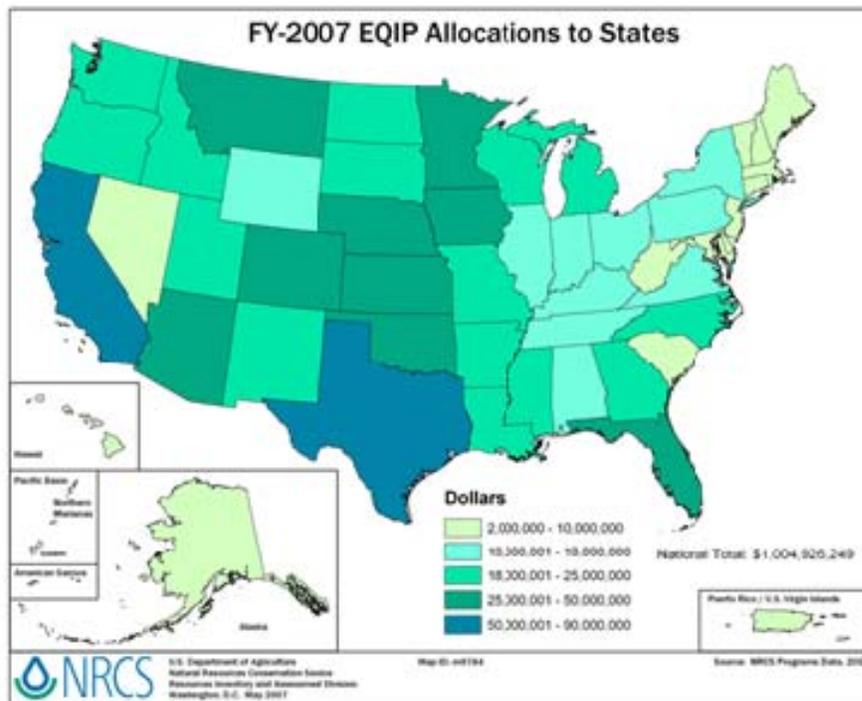
The map below shows EQIP allocations by state for fiscal year 2007. At \$1,446 million estimated average annual allocation for fiscal years 2008-2012, EQIP is the second largest conservation program by budget authority. EQIP has approximately ten times as much funding per year as either the FPP or WHIP. More information about EQIP in the 2008 Farm Bill is available at <http://dare.colostate.edu/pubs/arpr08-04.pdf>.

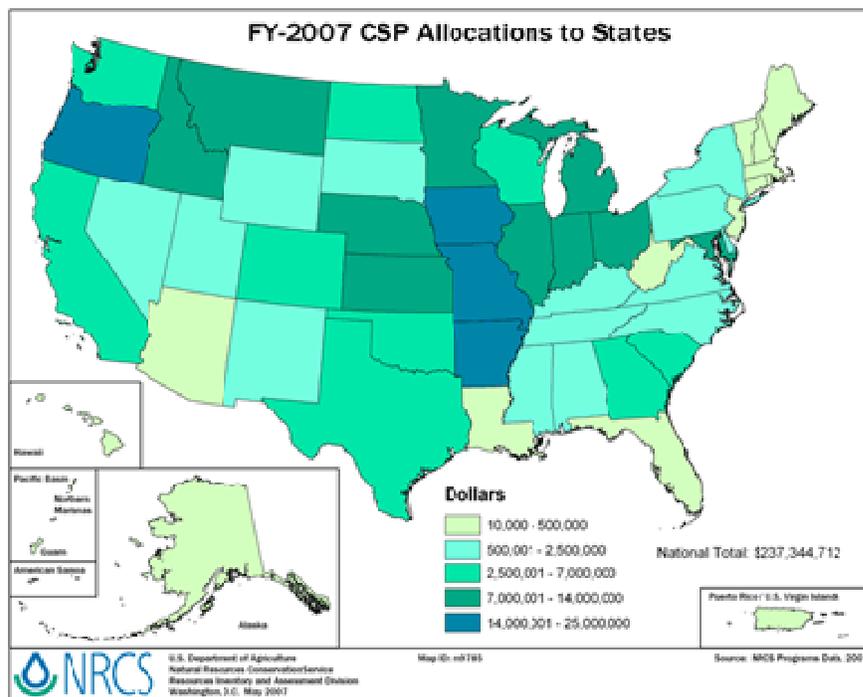
CSP

The Conservation Stewardship Program (CSP) rewards farmers and ranchers with the best conservation and stewardship practices on their working lands by providing them with financial and technical assistance. The CSP covers various areas of conservation, including soil, water, air, energy, and plant and animal life. CSP differs from other USDA conservation programs because it focuses on operations that have already addressed potential environmental impacts while keeping the land in production, whereas other programs focus on addressing environmental problems through financial assistance, by retiring the land from production, or by preventing land from being developed.

The CSP was first established as the Conservation Security Program under the 2002 Farm Bill. This program allowed a variety of conservation practices, but focused on land-based practices and specifically excluded livestock waste handling facilities. Resources of concern for the Conservation Stewardship Program include soil, water, and wildlife habitat. Contracts made under the Conservation Security Program will continue until they expire, even though the program has changed. Furthermore, a five-year extension of contracts is now allowed. State acreage allocations are determined using each state's proportion of eligible acres to the total eligible acres nationwide. Workers transitioning from land retirement programs are encouraged to enroll in working lands programs such as the CSP.

The map on page 8 shows allocations to CSP by state for fiscal year 2007. CSP is the third-largest conservation program by funding amount, at \$758 million average annual funding for fiscal years 2008-2012. For further information on CSP, including a side by side comparison of the 2002 provisions relative to the 2008 Farm Bill, please visit <http://dare.colostate.edu/pubs/arpr08-05.pdf>.





Agricultural Lands Preservation Programs

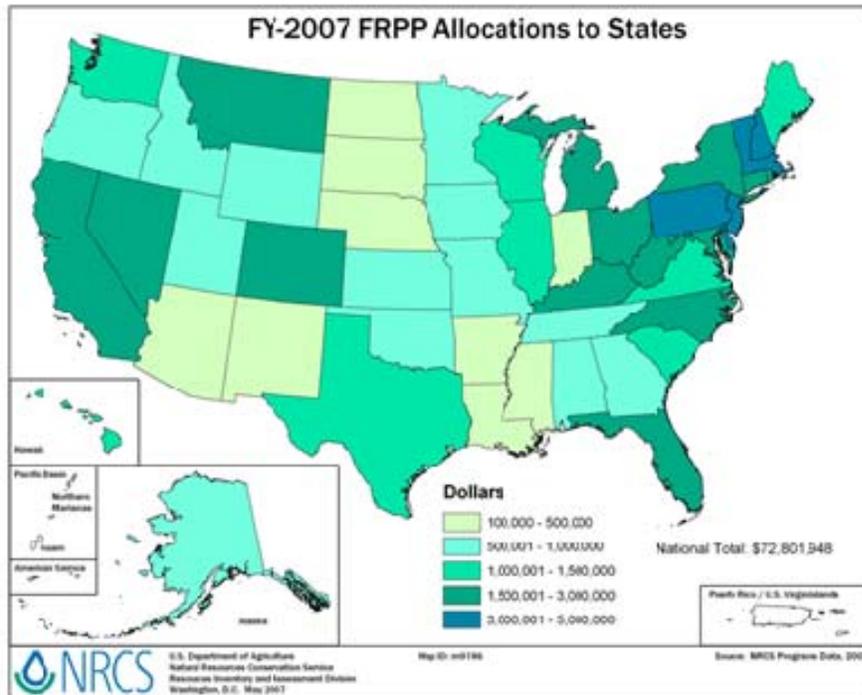
The GRP and FPP programs are agricultural lands preservation programs. These programs use public sector purchases of permanent easements, temporary easements or rental agreements, and purchase of non-agricultural development rights to keep land in agricultural uses. The primary benefits to this type of program are restriction of development and prevention of fragmentation due to development. Reasons to institute such a program range from preservation of agricultural heritage to preservation of scenic views and recreational activities. These benefits are not generally fully valued in markets, so government intervention is required to provide incentives for producers. By keeping lands in agricultural uses, these programs may also help to meet national food security goals.

FPP

Congress established the Farmland Protection Program (FPP) in the 1996 Farm Bill to limit nonagricultural uses of certain agricultural lands. The program was renamed the Farm and Ranch Land Protection Program (FRPP) for the 2002 Farm Bill, and changed back to the FPP in 2008.

The objective of the Farmland Protection Program is to help farmers and ranchers keep their working agricultural land in agriculture. Producers voluntarily sell conservation easements for their land in exchange for rental payments. Purchasing organizations for the conservation easements include the USDA itself, state and local government organizations, Tribes, and non-governmental organizations. These easements are a contract with landowners to keep their land in agricultural uses for the term of the contract (typically perpetual) and develop conservation plans for highly erodible lands. Landowners retain agricultural rights to the land; funding comes from the CCC. State, local, or Tribal governments or non-governmental organizations may supplement their share of the easement costs through a landowner's donation.

The map on page 9 shows FPP/FRPP allocations by state for fiscal year 2007. The FPP has an average annual allocation of \$149 million for fiscal years 2008-2012. The FPP is the third smallest conservation program by budget. More information on the FPP, including a side by side comparison of the 2008 provisions relative to the 2002 Farm Bill, is available at <http://dare.colostate.edu/pubs/arpr08-07.pdf>.



GRP

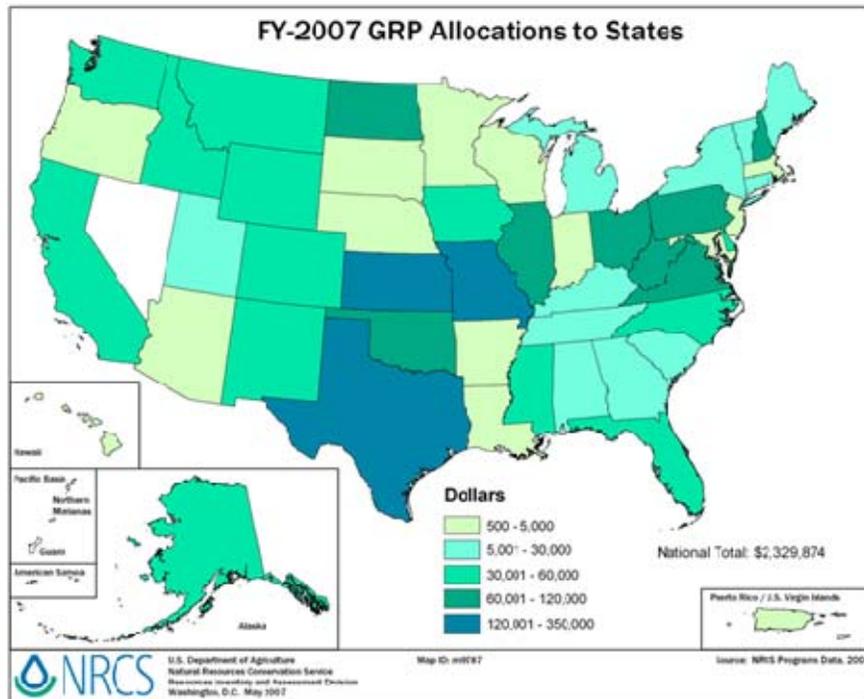
The Grassland Reserve Program (GRP) is a voluntary program that assists farmers and ranchers to maintain grasslands as grazing land and prevent conversion of grassland into other uses, such as cropping or urban development. The program focuses on supporting working grazing operations, protecting grassland, and enhancing biodiversity through provision of habitat. Normal haying and grazing activities are allowed under GRP. Producers must also restore and maintain appropriate grasses, forbs, and shrubs and address resource concerns such as soil erosion.

Participants apply for an easement or rental agreement with the NRCS or the Farm Service Agency (FSA). Once they have an easement or rental agreement in place, the participant agrees to limit future development and cropping activities but retain rights to graz-

ing activities and haying activities (subject to restrictions, especially during bird nesting season).

Well-managed grasslands provide ecological benefits in addition to their agricultural purposes. These benefits include contribution to hydrologic processes, carbon sequestration, and biodiversity maintenance because grasslands act as wildlife habitat and migration corridors. Furthermore, they prevent resource degradation, such as overgrazing, sediment and nutrient loss to water bodies, and stream-bank erosion.

The map on page 10 shows funding allocations for fiscal year 2007 by state. At only \$75 million average annual funding for fiscal years 2008-2012, the GRP is the least-funded conservation program. For more information on the GRP, including a side by side comparison of changes in 2008 relative to the 2002 Farm Bill, please visit <http://dare.colostate.edu/pubs/arpr08-06.pdf>.



Summary and Conclusions

All of the above conservation programs are voluntary programs that seek to provide producers with incentives to make environmentally beneficial decisions on their lands. The trend in the 2008 Farm Bill, as in 2002, continues to emphasize working lands programs and agricultural lands protection programs over land retirement programs. This trend is likely to continue in future legislation as well, for a number of reasons. Conservation considerations are important to both rural and urban populations; the tradeoffs required to make the best use of agricultural resources are becoming better understood and emphasized. Recent Conservation Titles reflect our recognition of the importance of dual productive and environmental objectives. Progress toward the accomplishment of these goals will require not only innovative conservation policy design, but tailoring those policies to have maximum impact on the most environmentally sensitive areas. Moreover, assisting farmers through green payment programs, such as the CSP, avoids World Trade Organization (WTO) censure for distorting international trade because the WTO does not view conservation payments as distortionary.

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