October 2008

ARPR 08-01

Agricultural and Resource Policy Report

Department of Agricultural and Resource Economics, Fort Collins, CO 80523-1172
http://dare.colostate.edu/pubs

FOOD, CONSERVATION AND ENERGY ACT OF 2008: CONSERVATION RESERVE PROGRAM (CRP)

Erin Hicks and Andy Seidl [1]

What is the CRP?

The Conservation Reserve Program (CRP) 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. Participants contract to receive annual rental payments and cost-share agreements through the Commodity Credit Corporation (CCC) for the duration of the agreement. 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 CRP was established in 1985. Congress set acreage enrollment limits starting with the 1996 Farm Bill, when it limited enrollment to 36.4 million acres at any given time. This cap was adjusted in 2002 to 39.2 million acres. Starting in 2010, the limit will be reduced to 32 million acres pursuant to the 2008 Farm Bill. The pilot program within the CRP for wetlands was extended until 2012, with an enrollment cap of 100,000 acres for any single state and 1 million acres total.

What are the policy implications?

The CRP is both a supply control program and a land retirement program; such programs have been the historical conservation policy focus. The CRP removes land from agricultural production for ten to fifteen years once a contract is in place on that land. 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.

However, this program is currently less attractive to producers because of high commodity prices and increased agricultural fuel production. Producers may make better returns by producing commodities than by receiving payments to keep the land out of production. Those producers who do not currently have CRP contracts are less likely to enter into them at this time. Similarly, producers whose contracts expire in the near future are not currently likely to renew them. The next significant release of lands from CRP contracts is

[1] Graduate Research Assistant and Associate Professor and Extension Specialist—Public Policy, Department of Agricultural and Resource Economics, Colorado State University, Ft. Collins, CO, 80523-1172. Andrew.seidl@.colostate.edu, 970-491-7071.

likely to occur in 2010, unless the USDA alters the rules for removing lands from CRP. The program currently may be amended to allow uses such as biofuel production and wind turbines under certain circumstances. Additionally, the possibility exists that haying will be allowed on up to 50% of eligible CRP lands and grazing on up to 75% without these producers having to leave the program. As of yet, no such decision has been made.

The land retirement nature of the CRP means that it also has benefits other than supply control. Land retirement programs can achieve great environmental benefits per acre because the land is removed from production and may be devoted entirely to environmentally beneficial use. Such benefits include wildlife habitat, carbon sequestration, and improved water quality from reduced runoff. This is especially important on the most environmentally sensitive acres. Land retirement programs 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. 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. The environmental benefits must be weighed against the costs of forgone production when deciding whether to enroll or re-enroll lands in CRP.

Currently, the 2008 Farm Bill de-emphasizes land retirement programs, such as the WRP and CRP. Land retirement programs require comparatively greater program costs because the program payments are equivalent to renting the land at its full agricultural value. Moreover, program rental rates on lands in land retirement programs with supply control effects must remain competitive with commodity prices; if commodity prices rise, rental rates must also rise, which means that fewer acres are likely to be funded. It may take more time and restoration cost to return the land to a state where the environmental benefits will reach desired levels with these programs than with working lands programs. Another challenge is slippage, where surrounding lands are converted to cropland to make up for the land retired into the program; this offsets benefits gained by retiring land. Finally, environmental benefits gained while the land was retired are lost when that land is brought back into production.

What will happen to lands from expiring contracts?

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 god 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.

Before commodity prices really increased, a 2006 Farm Foundation survey asked producers were asked what, if any, revisions should be made to the CRP in the next Farm Bill. Thirty four percent of producers nationally, 31.3 percent of small Colorado producers (less than $100,000 annual market value of product sold) and 39.5 percent of large Colorado producers ($250,000 or more annual market value of product sold) favored allowing contracts to expire and compete for re-enrollment – in other words, making no change to the program. Eighteen percent of producers nationally, 19 percent of small Colorado producers, and 13.4 percent of large Colorado producers favored eliminating the CRP as current contracts expire. Reducing CRP acreage and restricting future enrollments was supported by 18.0 percent of producers nationally, 17.3 percent of small Colorado producers, and 19.3 percent of large Colorado producers. Finally, 29 percent of producers nationally, 32.4 percent of small Colorado producers, and 27.7 percent of large Colorado producers favored allowing the highest-ranking contracts to re-enroll automatically at existing rental rates.

What do people think?

Water and soil erosion topped national producer conservation goals in a 2006 Farm Foundation poll, favored by 84% and 88% of producers respectively. The survey asked what types of federal assistance producers preferred to meet various environmental policy objectives. When asked about water quality protection goals, Colorado producers' responses were very similar to those of producers nationally: 20.1 percent of Colorado producers and 19 percent nationally favored technical assistance only, while 62.6 percent of Colorado producers and 65 percent nationally favored a combination of technical and financial assistance. Some producers (7.5 percent in Colorado and 7 percent nationally) preferred no federal assistance, while others (9.8 percent in Colorado and 9 percent nationally) had no opinion.

When asked what kind of federal assistance they thought should be provided for soil erosion control, which has been a focus of conservation titles since the 1985 Farm Bill, the clear majority of producers preferred a combination of technical and financial assistance. Specifically, 58.8 percent of Colorado producers and 65 percent of producers nationally favored this combination of support. Another 25.8 percent of Colorado producers and 23 percent of national producers preferred technical assistance only. Only 7.7 percent of Colorado producers and 7 percent of national producers wanted no technical assistance, while 7.6 percent in Colorado and 7 percent nationally had no opinion.

For the wildlife habitat protection goal, 28.5 percent of Colorado producers favored technical assistance, 44.4 percent preferred a combination of technical and financial assistance, 17.5 percent favored no assistance, and 9.5 percent had no opinion. These were in line with opinions in the nation overall, where 28 percent of producers were in favor of technical assistance only, 44 percent in favor of a combination of technical and financial assistance, 17 percent preferred no assistance and 10 percent had no opinion.

What has changed for the 2008 Farm Bill?

Previous Legislation	2008 Farm Bill
Capped CRP area at 39.2 million acres. As of April 2008, total enrollment was 34.7 million acres.	Authorizes program through fiscal year (FY) 2012. Caps program area at 32 million acres starting on Oct 1, 2009. Program purposes now explicitly recognize "addressing issues raised by State, regional, and national conservation initiatives."
Land was eligible if it met 1 or more of following criteria: Highly erodible cropland that was cropped in 4 of 6 years prior to 2002 could contribute to onsite or offsite environmental threat to soil, water, or air quality was included in expiring CRP contract was considered cropped wetland was associated with or surrounding noncropped wetlands was devoted to highly beneficial environmental practice (e.g., filter strips) was subject to scour erosion was located in national or State CRP conservation priority areas was marginal pastureland in riparian areas Certain marginal pastureland that was enrolled in Water Bank Program was also eligible.	Modifies eligibility requirements: land cropped in 4 of 6 years prior to 2008 (rather than 2002) alfalfa and other multi-year grasses and legumes in a rotation practice are to be considered agricultural commodities clarifies that alfalfa grown in approved rotation practice is to be considered an agricultural commodity and can be used to fulfill requirement that eligible land be cropped in 4-of-6 previous years

Table continued . . .

Secretary could have used different criteria in different States and regions for determining acceptability of CRP offers. Criteria were to be based on extent to which water quality or wildlife habitat could have been improved, erosion abated, or other environmental benefits provided.	Adds local preference criterion. To maximum extent practicable, program should accept offer from owner or operator who is resident of county (or contiguous county) where land is located, provided land provides at "least equivalent conservation benefits to land under competing offers."
Acreage limitations required no more than 25% of county's cropland could be enrolled in CRP and WRP. Limit could have been waived provided action would not adversely affect local economy, or if operators in county were having difficulties complying with conservation plans. About 100 counties exceeded the limit, typically by less than 5%.	Adds additional authority to waive cropland limit in cases limited to continuous or CREP enrollment provided that county government agrees.
Administrative changes allowed holders of CRP contracts set to expire during 2007-10 to opt to re-enroll or extend their contracts. Contracts with highest Environmental Benefits Index (EBI) scores could have been re-enrolled under new 10- or 15-year contracts. On contracts with lower EBI, holders could opt for extensions of 2, 3, 4, or 5 years.	Retains authority.
Rental payments authorized to be paid at amount necessary to encourage participation. FSA sets offer specific bid maximums based on available county average cropland rental rates, adjusted for field-specific agricultural productivity.	Requires Secretary to annually survey county average dryland and irrigated market rental rates.
Allowed managed haying and grazing (including harvest of biomass) and placement of wind turbines (with commensurate reduction in payment) at Secretary's discretion if consistent with conservation of soil, water quality, and wildlife habitat.	Adds new authority for routine grazing. Frequency of routine grazing is decided by local resource conditions. Adds prescribed grazing for control of invasive species as permissible activity.
No similar provision.	For trees, windbreaks, shelterbelts, and wildlife corridors, permits cost-share payments for thinning to improve condition of resources on the land. Authorizes $100 million in funding for FY 2009-12 for these cost share payments.
No similar provision.	Special treatment of CRP land transitioning from retiring farmer or rancher to beginning or socially disadvantaged farmer or rancher includes: • beginning 1 year prior to contract termination date, allow new farmer or rancher to make land improvements and begin organic certification process • new farmer must develop and implement conservation plan • provide new farmer opportunity to enroll in Conservation Stewardship Program and Environmental Quality Incentives Program • allow them to re-enroll certain partial field conservation practices • requires landowner to sell CRP land to beginning or socially disadvantaged farmer on contract termination date • retiring farmer may receive up to 2 years of additional payments Authorizes $25 million in funding for FY 2009-12 to facilitate these transitions.

Source: USDA ERS (2007).

How do the payments work?

Enrollment is for either ten or fifteen years, during which time the participant receives rental payments based on the agricultural rental value of the land and cost-share assistance of up to 50% of the cost of establishing the conservation practices outlined in the contract. Rental rates are based on the relative productivity of the soils within each county and the average dry land cash rent or cash rent equivalent. Producers will establish the maximum rental rate for their land before enrollment, and may either apply at that rate or offer to accept a lower rate in order to increase the likelihood of having their application approved.

In addition to rental payments, the participant may be able to obtain cost-share assistance and maintenance incentive payments. Cost-share assistance will be no more than 50% of the participant's costs of establishing approved cover on the eligible land. Maintenance incentive payments are additional money, up to $4 per acre per year, to perform specified maintenance activities. The FSA may offer extra incentive payments of up to 20% of the approved contract payment on other approved practices for certain continuous sign-up practices.

What will the program look like in the near term?

The CCC gives the following projections for enrollment:

	2007	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
General Sign-up							
New lands	121,000	-	250,000	500,000	1,000,000	1,500,000	1,750,000
Re-enrolled lands	851,000	2,569,000	886,000	2,550,000	2,811,000	2,842,000	3,571,000
Continuous sign-up							
New lands	314,000	255,000	300,000	350,000	350,000	350,000	350,000
Re-enrolled lands	-	170,000	144,000	105,000	103,000	148,000	260,000
Total Acres Newly Contracted	1,286,000	2,994,000	1,580,000	3,505,000	4,264,000	4,822,000	5,931,000
CCC expenditures ($)	1,963,161,000	2,008,863,000	1,949,572,000	1,998,637,000	2,052,475,000	2,156,489,000	2,324,959,000
Acres approved by year of conservation planning	3,039,000	1,530,000	3,505,000	4,264,000	4,822,000	5,931,000	7,873,000
General Sign-up							
New lands	-	(250,000)	(500,000)	(1,000,000)	(1,500,000)	(1,750,000)	(2,000,000)
Re-enrolled lands	(2,569,000)	(886,000)	(2,550,00)	(2,811,000)	(2,824,000)	(3,571,000)	(5,321,000)
Continuous sign-up							
New lands	(3,000)	(250,000)	(350,000)	(350,000)	(350,000)	(350,000)	(350,000)
Re-enrolled lands	(170,000)	(144,000)	(105,000)	(103,000)	(148,000)	(260,000)	(202,000)
Average annual rental cost per acre ($)	47.73	49.41	50.30	51.11	52.24	54.39	57.14

Source: adapted from USDA FSA (2008)

As of October 1, 2008, the CRP will disburse $1.8 billion in fiscal year 2009. The per-acre average rental cost has been revised up to $50.93 from the $50.30 shown in the table above, for an average earning of $4,105 per farm. This figure allows for 380,000 contracts under continuous sign-up and 386,000 contracts under general sign-up.

Who is eligible?

Eligible producers have owned or operated the land for at least 12 months prior to the close of the CRP sign-up period. Exceptions to this requirement are that 1) the new owner obtained the land because of the death of the previous owner, 2) ownership changed due to foreclosure where the owner exercised a timely right or redemption in accordance with state law, or 3) the FSA is adequately assured that the new owner did not acquire the land in order to enroll it in CRP.

Two types of land are eligible for CRP. The first is cropland (including field margins) that has been planted to an agricultural commodity in four of the six crop years prior to 2008 that is physically and legally capable of being planted to an agricultural commodity.

The second type is marginal pastureland that is appropriate for use as a riparian buffer or for water quality purposes.

How are applications evaluated?

The Farm Service Agency (FSA) evaluates offers according to the Environmental Benefits Index. Applications are ranked in comparison to other all other applications. The Environmental Benefits Index criteria include:

- Wildlife habitat benefits resulting from covers on contract acreage;
- Water quality benefits from reduced erosion, runoff, and leaching;
- On-farm benefits from reduced erosion;
- Benefits that will likely endure beyond the contract period;
- Air quality benefits from reduced wind erosion; and
- Cost.

As with most Farm Bill programs, participants are subject to the AGI limitation: participating individuals or entities must not have an Adjusted Gross Income (AGI) exceeding $1 million for the three tax years preceding the year in which the contract is approved. An exception is made when at least 2/3 of AGI comes from farming, ranching, or forestry operations.

Who do I contact for further information?

Tim Carney
Assistant State Conservationist (Programs)
655 Parfet Street, Room E200C
Lakewood, CO 80215-5517
Phone: 720.544.2805
tim.carney@co.usda.gov

Sources

Aillery, Marcel. (2006). "Conservation Program Design: Contrasting Working-Land and Land Retirement Programs." United States Department of Agriculture Economic Research Service Economic Brief Number 4. 1-6.

Babcock, Bruce A. and Chad E. Hart. (2008). "Options for the Conservation Reserve Program." *Iowa Ag Review Online*. 14 (2). Center for Agricultural and Rural Development (CARD). Online. Available: http://www.card.iastate.edu/iowa_ag_review/spring_08/article3.aspx. 10-11-08.

Cain, Zachary and Stephen Lovejoy. (2004). "History and Outlook for Farm Bill Conservation Programs." *Choices*. American Agricultural Economics Association.

Hellerstein, Daniel. (2006). "Chapter 5.2: USDA Land Retirement Programs." *Agricultural Resources and Environmental Indicators*. EIB-16. Economic Research Service/USDA.

Humphrey, Kerry. (2008). "USDA Issues $1.8 Billion in Conservation Reserve Program Rental Payments." 2008 Farm Bill: News Release. Online. Available: http://www.usda.gov/wps/portal/!ut/p/_s.7_0_A/7_0_2KD?contentidonly=true&contentid=2008/10/0251.xml. 10-09-08.

Johnson, Renee et al. (2008). "CRS Report for Congress: Comparison of the 2008 Farm Bill Conference Agreement with the House and Senate Farm Bills." Congressional Research Service. Online. Available: http://www.nationalaglawcenter.org/assets/crs/RL34228.pdf. 09-25-08.

Lubben, Bradley D., Nelson L. Bills, James B. Johnson, and James L. Novak. (2006). "The 2007 Farm Bill: U.S. Producer Preferences for Agricultural, Food, and Public Policy." National Public Policy Education Committee. Farm Foundation, University of Nebraska Lincoln, National Public Policy Education Committee (NPPEC). Publication number 2006-01. Online. Available: http://www.farmfoundation.org/news/articlefiles/375-2007%20Farm%20Bill%20Producer%20Survey%20FINAL.pdf. 10-13-08.

Pease, James, David Schweikhardt and Andrew Seidl. (2008). "Conservation Provisions of the Food, Conservation and Energy Act of 2008: Evolutionary Changes and Challenges." *Choices*. Agricultural and Applied Economics Association. 36-40.

Pritchett, James, Emily Scott, Andrew Seidl, and Wendy Umberger (2007). "Colorado Preferences for Federal Agricultural Policy and the 2007 Farm Bill." Technical Report TR07-06. Colorado State University Agricultural Experiment Station, Colorado State University Cooperative Extension Service.

Thiesse, Kent. (2008). "Farm Programs: For Over 20 Years CRP has Helped Soil, Water, Wildlife." The Land. Online. Available: http://www.the-land.com/l_programs/local_story_170173920.html/resources_printstory. 10-08-08.

United States Department of Agriculture (USDA). (2008). "Farm Bill Implementation: Progress as of October 2008." News Release No. 0266.08. Online. Available: http://www.usda.gov/wps/portal/usdahome?contentidonly=true&contentid=2008/10/0266.xml. 10-17-08.

United States Department of Agriculture (USDA) Economic Research Service (ERS). (2008). "2008 Farm Bill Side-by-Side: Title II: Conservation." 2008 Farm Bill. Online. Available: http://www.ers.usda.gov/FarmBill/2008/Titles/TitleIIConservation.htm 09-08-08.

USDA ERS. (2008) "Conservation Reserve Program (CRP)." Briefing Rooms: Farm and Commodity Policy: Glossary. Online. Available: http://www.ers.usda.gov/briefing/farmpolicy/glossary.htm#crp. 09-23-08.

United States Department of Agriculture (USDA) Farm Service Agency (FSA). (2007). "Conservation Reserve Program." Conservation Programs. Online. Available: http://www.fsa.usda.gov/FSA/webapp?area=home&subject=copr&topic=crp. 09-16-08.

USDA FSA. (2008). "Conservation Reserve Program: Enrollment Activity Summary: FY 2009 President's Budget." About FSA: CCC Budget Essentials. Online. Available: http://www.fsa.usda.gov/Internet/FSA_File/pb09_crpenrollactsummary.pdf. 09-23-08.

UNL Extension, USDA Farm Service Agency, USDA Natural Resource Conservation Service, USDA Rural Development, and Nebraska Department of Agriculture. "The Food, Conservation, and Energy Act of 2008 (2008 Farm Bill)." *Educating Nebraska on the 2008 Farm Bill.*