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Overview of the 2007 USDA Farm Bill

A Perspective on the Past & Future of the Conservation Reserve Program

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Background

For much of the last two decades, the Conservation Reserve Program (CRP) has been the 800-pound guerilla of American conservation programs—both in budget expenditure and in sheer size and geographical impact. The primary activity of the program is taking eligible working cropland out of production and placing it in grass or tree cover for 10- to 15-year contract periods.

The CRP also has similar land protecting measures with respect to buffers and other special conservation needs where the land may or may not be working cropland. A producer receives a rental payment for the land in the CRP that is based on prevailing rental rates in each county and the relative productivity of soils. Producers bid to have their land included in the CRP, and these land offers are scored based on the conservation value of the land listed in an environmental benefits index (EBI). Today, however, nearly half of the CRP contracts in force are non-competitive continuous contracts, though these tend to represent relatively less acreage.

There are some unique aspects of the CRP that determine its character and impact. The extent of the CRP is not determined by an annual budget from congress. The CRP is administered under an acreage enrollment cap of 39.2 million acres, with current enrollment at 36.8 million acres. In addition, funding of the program is done automatically through the Commodity Credit Corporation, which in effect guarantees funding up to the acreage cap. The current level of expenditure is approximately $1.8 billion dollars annually. However, Congress can change this funding pattern and can choose not to reauthorize the CRP.

The CRP was created under the 1985 Farm Bill as a conservation measure, with the major focus on protecting fragile lands, especially from soil erosion. While the first sign-up was in 1986, the sign-up that brought the largest block of the acres into the program occurred in 1987. This date is important because most contracts are for 10 years, and these contracts roll over in subsequent 10-year cycles. Also, 1987 was a time of very low commodity prices and extreme farm financial crisis, and the 1987 sign-up brought many producing acres into the program to help reduce the oversupply of commodities. Many of these acres were concentrated in the Plains and Western Corn Belt.

In 1997, this large block of contracts expired, and owners of some 20 plus million acres sought entry or re-entry into the program. Several important decisions were made by the administration at this time. The environmental benefits index (EBI) was broadened to go beyond the emphasis on erosion as the main environmental benefit for scoring bids. There were additions that received more emphasis, such as wildlife benefits, water quality, and air quality. One option available to the administration would have been to admit the 19 to 21 million acres that met minimal environmental performance. Another would have been to admit only 16 million acres where the environmental benefits were substantially higher and rental costs less. (When offers were arrayed on the basis of conservation value relative to bid cost, beyond 16 million acres, the benefits fell of quickly and rental costs increased.)

The decision was made by the Secretary to take 16.1 million acres in bids. This increased the overall conservation benefits per acre and increased the cost effectiveness of the program. The decision was not popular with those who had successfully retired their land in 1987 and hoped to continue receiving payments. A more comprehensive environmental benefits index was put in place, and bidding became more competitive. There has been no return to the desire to get land out of production that there was in '87, and the public gets better conservation value per dollar since the changes in 1997.

There are pressures in both directions on the CRP. For example, wildlife benefits through improved habitat have become increasingly recognized as a major contribution of the CRP, particularly where the CRP land is managed with this in mind. NGOs concerned with wildlife, like Audubon and Ducks Unlimited, have become increasingly strong supporters of the program—especially in geography that is critically important to wildlife, like the Prairie Pot Hole region.

On the other side, those desiring to increase total commodity production, like the National Grain and Feed Association and agribusiness firms that supply inputs to producers, would just as soon see a CRP with less acres and more producing cropland. These groups made a strong case for greatly reducing the size of the CRP in 1997, but did not succeed. Many farmers are also concerned about the CRP when it effectively removes a large amount of working farmland in their neighborhood. While the land removed may not have been very suitable for agriculture, it contributes to the agricultural economy and helps maintain agricultural suppliers and activities.

CRP Enrollment in Times of High Prices

Today there are arguments for releasing land from the CRP given that subsidized ethanol has encouraged such rapid expansion of the demand for corn and an unprecedented increase in corn prices in late 2006. High corn prices also make it less likely that a farmer will commit land for 10 years in a CRP contract if that individual is optimistic about future commodity prices. With the large amount of land—some 16 million acres—coming out of contract in 2007, one would have expected that the bulk of this land that was suitable for crops would not be re-enrolled in CRP and that there would be little new land forthcoming to enter the CRP after that.

Almost by accident, most of the land that was to come out of the CRP in 2007 and some subsequent years has been re-enrolled. A few years ago, USDA looked ahead at the large number of contracts that would expire in 2007 and realized that it would have difficulty with the extreme administrative load this would require for evaluation and potential re-enrollment. Another reason was that the CRP was to expire the end of 2007, and the administration wanted to make sure program benefits would continue.

In early 2006, when corn prices were relatively low, the Farm Services Agency (FSA), which administers the CRP program, offered those producers holding general sign-up CRP contracts expiring from 2007 to 2010 (some 27.8 million acres) the opportunity to re-enroll or extend their contracts for varying lengths of time based on their EBI score. Those with the highest environmental benefits could sign up for the longest term. As a result of this action, most contracts (over 80%) expiring in the 2007-2010 period have either re-enrolled or been extended. The critical factor is that this occurred before the run up in corn prices during the fall harvest in 2006. These high prices would have likely reduced substantially the continuation of these contracts in any form until CRP rental rates caught up with farmer expectations—and this would have greatly increased the cost of the program.

Suggestions for the CRP from the House Agriculture Committee

In May 2007, the House Agriculture Committee released a first draft of suggestions for the Conservation Title for comment. Some of the key provisions in that draft indicated that Congress would:

- Extend the CRP to 20012 (the end date of a 5-year 2007 Farm Bill).
- Also extend the pilot program for enrollment of wetland and buffer acreage in CRP to 2012.
- Allow prescribed grazing for control of invasive species on CRP lands.
- Require annual surveys of cash rental rates for all counties having 20,000 acres or more of cropland and pastureland.
- Allow the Secretary to modify a CRP contract to facilitate the transition of CRP land from a retiring owner to a beginning or socially disadvantaged farmer or rancher.

- Allow the contract holder to terminate a contract that has been in effect for at least 5 years at any time.

Congress did not include any of the several wildlife items that are in the DeLauro, Kind, or Cardoza bills. (These could be low- or no-cost tweaks for CRP to enhance wildlife benefits.)

Issues for the 2007 Farm Bill

Because the CRP is funded through the commodity credit corporation, is based on long term contracts, and has strong support from conservation and wildlife groups, there is a momentum behind the CRP that is not likely to be slowed and less annual budget cycle concern than exists for some other conservation programs.

Administrative aspects of the program are an issue both for Congress and for the Secretary of Agriculture. Some are as follows.

- Will the Secretary release (or be forced to release by Congress) land from the CRP for crop production? There are 4-7 million acres in the CRP that are suitable for corn or soybeans. Under current rules the Secretary can determine the conditions under which such acres are released. That is, he could specify additional conservation practices if the land required it. However, this is a moot point for 2007. Land released now would have to have cover crops burned down with herbicide this fall and be plowed to be suitable for planting in spring 2008. Alternatively, the Secretary might release CRP land and restrict it to biomass production for the remaining duration of the existing contract.
- Will additional special provisions be made for using the CRP to produce biomass? Under what conditions would this be done, and how much of the implementation decision will be left to the Secretary? There may be WTO implications depending upon whether the Secretary releases acres from CRP for (subsidized?) biomass production or whether biomass is grown on acres still enrolled.
- How will the rules be modified with respect to the bidding process and the EBI? Since the 1997 sign up, many desire a more generous scoring system for the EBI. There remains a vestige of the belief that conservation payments are partially an entitlement, with increasing farm income as one of the unspoken goals of conservation programs.
- Will the program increasingly target those lands most vulnerable to environmental problems? While this is less cost effective for the results obtained, runs counter to the notion that all should be able to participate in the program.
- To what extent will the CRP have a greater or lesser wildlife emphasis? Wildlife and hunting groups are strong supporters of the CRP. They can be expected to lobby hard for CRP rules that further enhance wildlife habitat.
- Finally, does the program become more focused on specific areas of environmental concern? For example, if water quality were given a higher priority, then the geography of the distribution of funds would shift some from the Great Plains to the Midwest to respond to reduce nitrogen losses from cropland and their effect on the Mississippi and the Gulf of Mexico.

Final Comments

The decisions about the CRP to be made by the Secretary and Congress over the coming year are important and could modify the character of the program—gearing the CRP towards more targeted conservation or towards more general program participation and income distribution. Changes in emphasis might be made that would alter the relative ranking for scoring different environmental benefits and thus the geography of payments.

Given the history of the program and the high level of support it enjoys from groups outside of agriculture, the program is not likely to be eliminated or suffer the on-again off-again fate of the Conservation Security Program. The Commodity Credit Corporation funding insulates the CRP from year-to-year budget adjustments that bedevil many other programs. However, Congress still has to re-authorize the program.

The wild card in all of this is the impact of ethanol production and the resulting high corn prices that also get reflected in other commodity prices and ultimately in food prices. If there is dry weather this summer, we could see a spike in corn prices that might force the Secretary to make accommodation and bring land out of the CRP for crop production. The key question then is under what terms the Secretary would allow such land to come out of the program.

Note: The author appreciates the constructive reviews from USDA staff and others that led to improvements in this publication. However, responsibility remains that of the author.

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