

The Conservation Reserve Program

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Background

The Conservation Reserve Program (CRP) is a voluntary long-term cropland diversion program. CRP relies primarily upon positive economic incentives to entice owners, operators and tenants to convert highly erodible or otherwise environmentally sensitive cropland with appropriate cropping history into a conserving use for 10 to 15-year contract periods.

The United States' long-term land diversion policy began in the early 1930s with the purpose of adjusting production to demand by withdrawing cropland from cultivation. Later in the 1930s, the policy expanded to include conservation through a compensation program to encourage producers to shift from soil-depleting to soil-building crops. With the onset of World War II, the emphasis shifted to increasing production to meet war and post-war needs.

When overproduction of agricultural commodities again became a concern by the mid-1950s, the soil bank was put in place. Its objectives were to reduce commodity stocks and to conserve land resources. Participants were paid to divert cropland to conserving uses. Diverted cropland was not required

to meet any erosion or other environmental standards to be eligible. By the early to mid-1970s, diverted cropland was being returned to production to fulfill expanding export demand.

As over production again became a problem, short-term land retirement programs, including the 1983 payment-in-kind program (PIK), were periodically put in place. Long-term land retirement programs with conservation and production adjustment goals were not implemented again until 1986.

The Food Security Act of 1985 (1985 FSA) established the CRP. Other than its role in supply management, its primary objective was to reduce soil erosion. Secondary objectives were to protect the long-term capacity to produce food and fiber, reduce sedimentation, improve water quality, create fish and wildlife habitats, curb production of surplus commodities, and provide farm income support.

Land owners, operators, and tenants submitted per-acre bids for eligible lands with appropriate cropping history to county Agricultural Stabilization and Conservation Service offices (now Farm Service Agency — FSA). Bids less than or equal to the maximum acceptable rental rate set for the county were accepted. Most successful bidders realized returns to fixed resources from CRP payments that were equal to or more than the returns that would

have been realized under continued crop production. National-level CRP enrollment in 1990 was 33.9 million acres, about 75 to 80 percent of the maximum enrollment of 40 to 45 million acres authorized in the 1985 FSA.

The Food, Agriculture, Conservation and Trade Act of 1990 (1990 FACT) re-authorized the CRP, shifted the focus, and changed the bidding procedure. Highly erodible cropland remained eligible. Other eligible land included cropland devoted to filter strips and other easement practices in state water quality areas, within established wellhead protection areas, and within areas subject to scour erosion.

The CRP bid process had two phases. First, the CRP bid had to be less than the respective county-level bid maximum. (In the last sign-up under this Act, maximum CRP rental rates were calculated for each tract bid based on the inherent productivity of its soils and county-average cropland rental rates). Then, bids were evaluated to determine their environmental benefits through an environmental index, never explicitly known by the bidder, which embodied goals for surface and ground water quality improvement and preservation of soil productivity. Bids were ranked, and those with the highest environmental benefits relative to contract costs received priority consideration. National-level enrollment in 1995 was 36.4 million acres, about 96 percent of the maximum enrollment of 38 million acres authorized.

The Federal Agriculture Improvement and Reform Act of 1996 (1996 FAIR Act) again re-authorized the CRP. Eligible lands for the periodic sign-ups were similar to those designated under the previous Act. The two-phase bid procedure was modified. Maximum CRP rental rates are established for each tract. Each bid is evaluated through an environmental benefits index with elements and scoring limits known to the bidder. Also, there is a continuous sign-up for cropland determined suitable for the following practices: filter strips; riparian areas; shelter belts; living snow fences; field windbreaks; grassed waterways; salt tolerant vegetation; and shallow water areas for wildlife. Bids under the continuous sign-up adhere to the maximum acceptable rental rate calculations, but are not subject to the environmental benefits index rating. National

level enrollment in late 2000 was 33.5 million acres, about 92 percent of the maximum enrollment of 36.4 million acres authorized under the FAIR Act.

Related programs: The Wetlands Reserve Program (WRP) was also authorized under the 1985 FSA and has continued through subsequent legislation. The WRP offers landowners the opportunity to protect, restore, and enhance wetlands on their property. To be eligible for WRP, land must be restorable and suitable for wildlife benefits. Landowner eligibility is dependent on the participation option pursued. Currently, 1.05 million acres are enrolled — some in each state except Alaska.

Landowners may participate in WRP through permanent easements, 30-year easements, and restoration cost-share agreements of a maximum 10-year duration. For permanent easements, landowners are paid the lesser of the agricultural value of the land, an established payment cap, or an amount offered by the landowner. The USDA pays all of the restoration costs. For the 30-year easements, landowners are paid 75 percent of what they would be paid for the permanent easement and 75 percent of the restoration costs. Under the restoration cost-share, the USDA pays for 75 percent of the restoration activity, but there is no compensation for the land. Sign up for WRP is continuous through the Natural Resources Conservation Service (NRCS), the lead USDA agency. Enrolled land may be used for some agricultural purposes if compatible with the wetland plan, but must be requested from NRCS. Such uses may include haying, grazing, or wood harvest.

The Conservation Reserve Enhancement Program (CREP) was authorized pursuant to the 1996 FAIR Act. The program's primary objectives are to coordinate federal and non-federal resources to address specific shared resource concerns and to improve water quality, erosion control, and wildlife habitat related to agricultural use in specific geographic areas. Currently, the size of CREP is limited to 100,000 acres per state. Total CREP enrollment is part of the overall CRP enrollment cap of 36.4 million acres.

Participation and land eligibility requirements for CREP are the same as for CRP. In addition to the usual CRP rental payments, the federal government

may make special one-time or annual incentive payments to encourage participation in CREP. In some cases, annual payments from federal sources are enhanced by 20 percent. States and other program participants may provide other funding to further encourage program participation. Like CRP, the USDA's Farm Service Agency administers CREP. Sign up for CREP in states with approved programs is continuous. Presently, 15 states have been approved for participation in CREP and 6 other states have submitted proposals to participate. Just over 148,000 acres have been enrolled at an average rental rate of \$131/acre.

Issues

Three major issues have surfaced with respect to current CRP policy and implementation rules. The first is the determination of the maximum acceptable rental rate. For a particular tract, the maximum acceptable rental rate is the weighted average of the soil rental rates for the three predominant soils in that tract plus an annual \$5 per acre allowance for conserving use maintenance.

Soil rental rates, subject to county Farm Service Agency committee review, are assigned to soil mapping units in each county. Soil rental rates are assigned to each mapping unit based on inherent productivity. The soil map unit in the county with the average inherent productivity (yield) is assigned the county average cropland rental rate. The more productive soils in the county are assigned rental rates up to 150 percent of the county average cropland rental rate. The poorest soils in the county are assigned rental rates as low as 50 percent of the county average cropland rental rate.

Assignment of soil rental rates based on inherent productivity criteria has shortcomings. Using the inherent productivity criterion ignores resource improvements that landlords and operators have completed on cropland, often with USDA technical and crop-share assistance. Furthermore, the inherent soil productivity criterion ignores the differences in management practices employed by individual operators.

The soil rental rate approach for setting maximum rental rates for CRP tracts tends to attract cropland with higher soil productivity ratings. These soils usually require fewer manufactured inputs for crop production compared to those soils with lower ratings. This approach tends not to attract cropland tracts with lower rental rates. Landlords, operators and tenants with cropland tracts with lower soil rental rates often continue to produce crops in rotation. In regions where the major concern is wind erosion, soils with lower inherent productivity ratings are often more erosive.

A second issue focuses on the environmental benefits index (EBI) used to prioritize the bids offered. Each bid is assigned a point score based on the relative environmental benefits associated with the land resource offered. Bids are ranked in comparison to all other bids submitted nationally. Selections are made from that ranking.

EBI components and their respective minimum and maximum scores are: 1) wildlife habitat benefits (0 to 100 points); 2) water quality benefits from reduced erosion, runoff, and leaching (0 to 100 points); 3) on-farm benefits from reduced erosion; 4) likely long-term benefits beyond the CRP contract (0 to 50 points); 5) air-quality benefits from reduced erosion (0 to 35 points); 6) benefits from enrollment in a conservation priority area (0 to 25 points); and 7) benefits assigned for the cost of the bid with points assigned after the sign-up period ends.

Management decisions of producers may influence EBI scores. The wildlife benefits subfactor may be influenced by the bidder's choices of cover and practices beneficial to wildlife. For instance, the bidder might maximize the cover and practice score by selecting a mixed stand of five species, possibly three grasses, one shrub and one forb suited for wildlife in the area. Management decisions also impact the cost factor. The cost factor usually involves two elements — the cost-share paid and the bid level. Usually, if cost-share is declined by the bidder for establishing the conserving use, EBI points are assigned, but the majority of the EBI points assigned for "government cost" are assigned based on the bid level submitted compared to the national maximum bid allowed. Lower bids yield higher factor

points but, often, the EBI points gained relative to each dollar the bid is reduced are minimal.

There may be science to reinforce individual factors measured in the index, but when the maximum points vary by EBI factor, science may be quickly overwhelmed by other considerations. Rather than the USDA asserting that the program maximizes *environmental benefits per dollar spent*, it is more accurate to say that the *environmental index is maximized per dollar spent*. The latter comment should not be taken as a measure of environmental improvement.

A third issue focuses on the landlord/tenant relationship. Historically tenant history was protected under CRP implementation rules. When cropland managed under crop share leases was enrolled in CRP, landlords and tenants often shared CRP payments in the same proportions that they shared crop revenues. In 1988, ASCS (now FSA) issued a directive that shares were to be determined commensurate with cost contributions of the landlord and tenant subsequent to conserving use establishment. Essentially, this would have reversed landlord and tenant shares. Many of the contracts under the Food Security Act were already in place. In subsequent sign-ups, CRP contracts continued to protect tenant history and usually maintained historical revenue shares.

Under current rules, tenant history is dependent on cropland use when offered for CRP consideration. If the acreage offered is not in CRP at the time of the sign-up, the landlord is required to provide tenants who have an interest in the acreage being offered an opportunity to participate. The landlord is not allowed to reduce the number of tenants as a result of enrollment in CRP. When the acreage being offered is enrolled in CRP at the time of the sign-up, a tenant on an existing (but expiring) contract must have an opportunity to participate in a future CRP contract if (1) the tenant is otherwise involved in farming other acreage on the farm at the time of the sign-up, or (2) the tenant has an interest in the acreage being offered on the effective date of the new contract. Some tenants, who had interests that expired concurrent with an expiring CRP contract, and with no other farming interest with the landlord, have been left out.

Now, there is latitude for negotiation in the division of the CRP payments. The annual CRP rental payment is to be divided among the participants on a single CRP contract in the manner that is agreed upon in the contract. However, each contract involving landlords and tenants is subject to county Farm Service Agency committee review, and proposed payment divisions are evaluated.

There are two probable policy alternatives. The first would re-authorize the CRP and manage the program under the existing implementation rules. The second would re-authorize the program, but set the maximum per acre rental rate at the county-level average cropland rental rate. It is quite possible that both alternatives would try to increase the maximum enrollment substantially beyond the 36,400,000 acres that were authorized under the 1996 FAIR Act.

There is a possible third policy alternative — that of phasing out the CRP. It is not expected that this alternative will be strenuously pursued because the majority of the current CRP contracts are at less than mid-term in the usual 10-year contract period. An estimated 27 million acres currently under contract are not due to expire until fiscal year 2007 or later. Furthermore, as has been demonstrated at times during the 15-year history of the CRP, an effective way to curtail enrollment is to not schedule bidding periods.

Policy Alternatives and Consequences

Re-authorization of the CRP Under Current Rules

This alternative would re-authorize the CRP and continue implementation under existing rules. There are several consequences of the current implementation rules that would be expected to continue:

- Allowing the highest soil rental rates to be three times that of the lowest soil rental rate in a county exaggerates the range of these rates relative to

the range of cropland rental rates that exist in the market. Tenants and other operators face distorted cropland rental markets.

- Older contract holders tend to have larger percentages of their cropland in the CRP than do younger contract holders. For older potential CRP participants who are landowners their opportunity cost for enrolling in the CRP is the prevailing cropland rental rate. CRP rental rates based on the higher soil rental rates available in a county are above the opportunity costs for such producers, distort the cropland rental market, and cause excessive expenditures of public funds.
- CRP environmental goals to limit soil erosion and improve water quality may not be met. The soil rental rates approach to setting CRP rental payments does not necessarily attract soils that are highly erosive and/or otherwise contribute to environmental degradation. Soils with lower soil rental rates are often left in crop production because the opportunity cost for resources in crop production are greater than the maximum CRP rental rates for such soils.
- Surveys of CRP contract holders in the mid-1990s showed that 85 percent of the CRP contract holders were likely to bid for continuation of their CRP participation at the rental rates they were receiving at the time. CRP rental rates above the county-average cropland rental rate are in excess of the payment needed to fulfill program goals.

Re-authorize CRP with different implementation rules

This alternative would limit CRP rental rates to a maximum equal to the county-level average cropland rental rate, as established by county FSA committees. There are several expected consequences of this change in implementation rules:

- Limiting the CRP payments maximum to the county-level average cropland rental rates would

reduce the total public expenditures for the program.

- These rules will tend to attract CRP tracts that have soils that have lower soil productivity ratings and have cropland rental market opportunity costs that are less than the CRP rental rates.
- These rules will attract lower productivity soils that are more erosive in regions where wind erosion is predominant.
- A revised Environmental Benefits Index (EBI) could be specified if there is a desire to shift CRP participation away from the current heavy participation in the Great Plains states. A revised EBI could incorporate factors unique and/or favorably weighted to encourage participation in other targeted regions. Some have advocated permitting individual states to make adjustments in the EBI to better reflect local conditions and objectives.

Conclusions

There is likely to be some interest in expanding the CRP acreage limits, especially if other current short-term cropland deferral programs such as flexible fallow do not receive favorable attention in the policy making process. That is, there may be a desire for the CRP to expand, not necessarily to achieve environmental and conservation goals, but to serve as the defacto supply management program.

The impetus for using CRP as a defacto supply management program is predicated on the positive impact that removing cropland acres would have on reducing domestic crop production and increasing commodity prices. Positive price impacts would be expected to be minimal for commodities such as wheat, rice, and cotton of which the United States accounts for only modest portions of world production. The potential for price increases subsequent to CRP expansion for other agricultural commodities for which the United States accounts for

a major portion of world production will depend on what levels of CRP payment could be realized.

References and Suggested Readings

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