

CRS Report for Congress

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Conservation Reserve Program: Status and Current Issues

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Summary

The Conservation Reserve Program (CRP), enacted in 1985, provides payments to farmers to take highly erodible or environmentally sensitive cropland out of production for ten years or more to conserve soil and water resources. It is the federal government's largest private land retirement program. The program is administered by the Farm Service Agency of the U.S. Department of Agriculture (USDA), with technical assistance provided by USDA's Natural Resources Conservation Service. Congress most recently reauthorized and amended the CRP through FY2007 in the 2002 Farm Bill, the Farm Security and Rural Investment Act (P.L. 107-171). CRP has subprograms as well, the best-known of which is the Conservation Reserve Enhancement Program (CREP).

The 2002 law increased the CRP enrollment cap from 36.4 million acres to 39.2 million acres, added wildlife resources as a CRP purpose, and allowed participants to extend some contracts up to 15 years. In August 2004, USDA announced a "general signup" for CRP, opening the program for landowners to submit bids to enroll acreage. USDA also announced two CRP initiatives: one to enroll 250,000 acres of bobwhite quail habitat and a second to enroll 250,000 acres of non-floodplain wetlands. Landowners may apply to enroll in these initiatives any time from October 1, 2004 - December 31, 2007, or until the enrollment caps are reached. Finally, USDA requested public comment on long-term CRP policy issues (69 FR 48447). This report will be updated periodically.

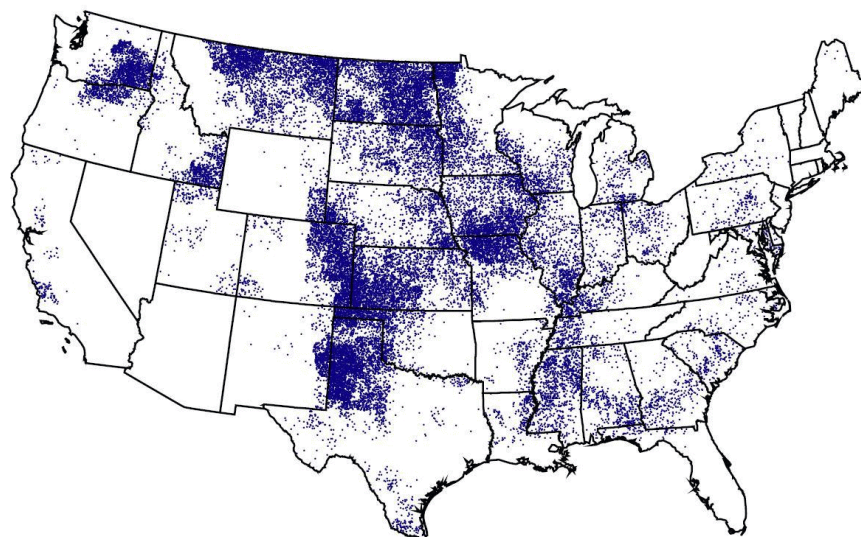
What Is the Conservation Reserve Program (CRP)?

The Conservation Reserve Program (CRP) is the federal government's largest land retirement program for private land. It was first enacted by Congress in 1985 to help control soil erosion, stabilize land prices and control excessive agricultural production. Since then, program purposes have been expanded to include environmental goals. The program is administered by USDA's Farm Services Agency (FSA), with technical assistance from USDA's Natural Resources Conservation Service (NRCS) and funding from USDA's Commodity Credit Corporation (CCC). The 2002 farm bill authorized

CRP to enroll 39.2 million acres at any one time through 2007. Information on the program is available from FSA at [<http://www.fsa.usda.gov/dafp/cepd/default.htm>].

Under CRP, participants bid to retire land from production for 10-15 years. FSA assesses the land's environmental value using an Environmental Benefits Index (EBI). If the land is accepted, the landowner may enroll the land, receive annual rental payments for it, and maintain the land under an approved conservation plan. Participants can also receive payments for up to 50% of the cost of carrying out approved conservation practices (such as planting a cover crop on the land to reduce erosion). According to FSA, the CRP had about 34.8 million acres enrolled as of July 2004.¹ Up to 25% of a county's cropland may be enrolled in CRP. Over 80 counties have reached this limit.

Figure 1. CRP Acreage as of July 2004
(1 dot = 1,000 acres)



Source: Farm Service Agency

After a CRP contract expires, federal payments cease. If the land in question is “highly erodible” (about 75% of the land enrolled in the CRP meets this definition) and participants decide to return the land to production, they must manage this land under an approved conservation system if they wish to be eligible for some federal farm programs (including commodity payments).

How Participants Enroll in CRP

There are four main types of signups for enrolling land in the CRP: general, continuous, Conservation Reserve Enhancement Program (CREP), and Farmable Wetlands Program (FWP).

General Signup. General signups are specified enrollment periods during which landowners compete nationally to enroll land in CRP. Over 90% of CRP acreage (31.8

¹ States with the most enrolled acres are Texas (4 million acres), Montana (3.4 million acres), North Dakota (3.4 million acres), Kansas (2.9 million acres), and Colorado (2.3 million acres).

million of 34.8 million)² is enrolled through general signups. Applicants must meet certain eligibility criteria, evaluate their land according to FSA's Environmental Benefits Index, and submit bids to FSA for enrollment. FSA accepts applications that show the highest environmental benefits. These sign-ups are always competitive: in 2004, FSA accepted 1.2 million acres of the 1.7 million acres offered.³

Environmental Benefits Index (EBI). As the CRP has been expanded to include broader environmental goals, FSA has adjusted the categories and points awarded under the EBI. For example, FSA announced in June 2003 that, for the first time, it may award points to projects which have the potential to sequester carbon (reducing greenhouse gas emissions). Other factors include wildlife habitat benefits from planted cover crops, water quality benefits from reduced erosion, and whether benefits will endure beyond the contract period. Offers that included a willingness to accept less than the maximum rental rate for acreage (thereby reducing the cost to the government), as well as offers to re-enroll land, may have received additional points. FSA ranks all applications nationally, and then sets an EBI score cut-off above which applications will be accepted.

Continuous Signup (includes Bobwhite Quail and Non-Floodplain Wetlands). Environmentally desirable land devoted to conservation practices with high environmental benefits may be enrolled in CRP at any time for 10-15 years under continuous sign-up. Offers are automatically accepted (provided the land and producer meet certain eligibility requirements) and are not subject to competitive bidding. Contracts usually include additional incentive payments. The 2002 farm bill reserved 4 million acres (of the 39.2 million enrollment limit authorized) for land to be enrolled under continuous signup or CREP signup (see below). Within the continuous signup program there are some options tailored to certain conservation needs, such as restoring floodplain wetlands and native hardwood trees in wetlands. On August 4, 2004, the President announced two more initiatives: a 250,000-acre initiative to restore bobwhite quail habitat in the Midwest and the Southeast, and a 250,000-acre initiative to restore wetlands located outside floodplains (including Great Plains playa lakes). These two initiatives begin October 1, 2004 and continue through December 31, 2007.

Conservation Reserve Enhancement Program (CREP). This is a joint federal-state continuous signup program available in parts of 25 states as of October 2004.⁴ CREP targets geographic areas with agriculture-related environmental problems, such as Maryland's Chesapeake Bay and Florida's Everglades. Some states (including New York and Ohio) have multiple CREPs, each targeting a different area of the state. States must pay at least 20% of overall CREP costs. Generally, CREP pays higher rents to attract participation. Landowners may bid to enroll in CREP at any time.⁵

Farmable Wetlands Program. As authorized under the 2002 Farm Bill, this allows farmable wetlands - those that have been partially drained, or are naturally dry

² Farm Service Agency, December 2004, at [<http://www.fsa.usda.gov/dafp/cepd/stats/Dec2004.pdf>], accessed on February 4, 2005.

³ Farm Service Agency, "The Conservation Reserve Program 29th Signup Summary Booklet," at [http://www.fsa.usda.gov/dafp/cepd/29th/29th_signup.htm], accessed on February 4, 2005.

⁴ See footnote 3.

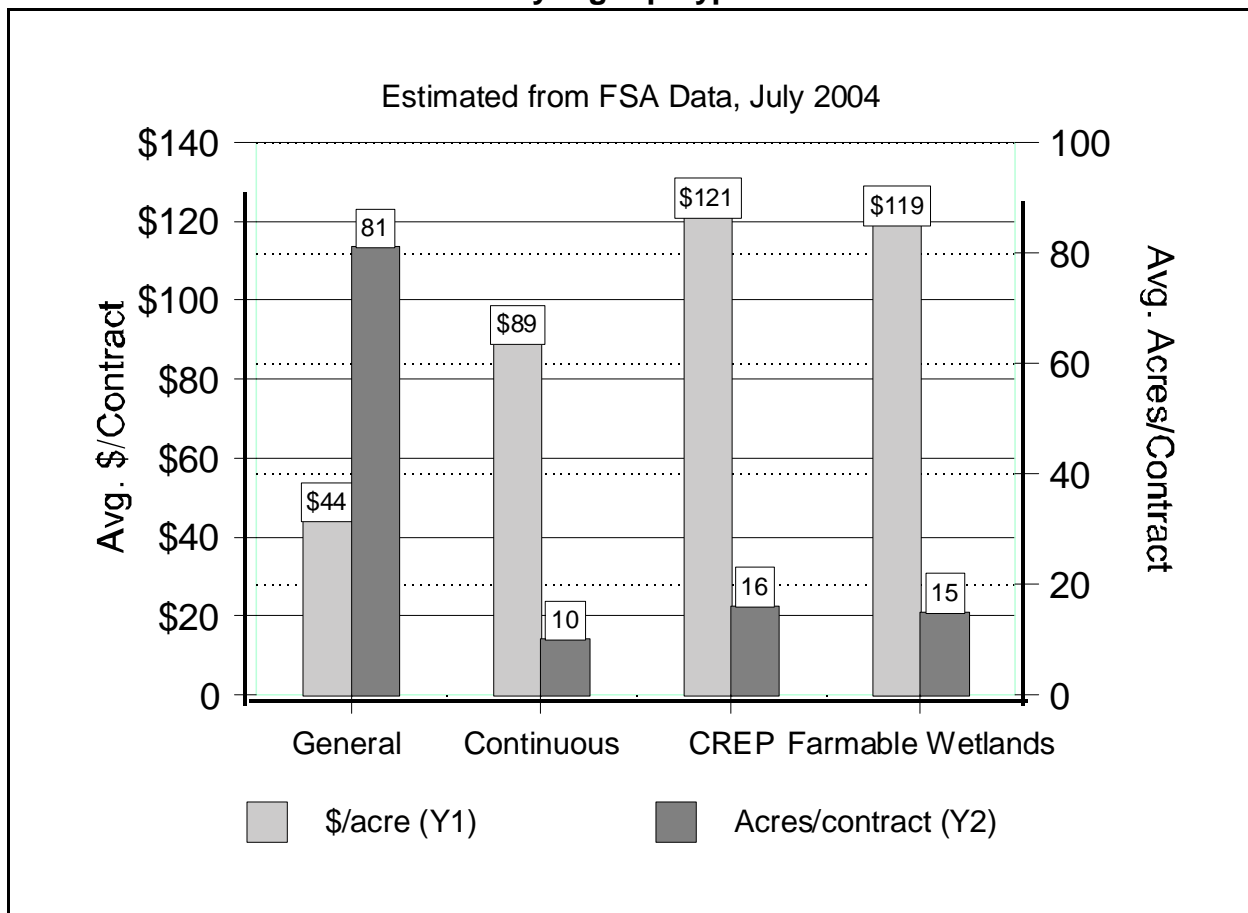
⁵ For more on where CREPs are located, see [<http://www.fsa.usda.gov/dafp/cepd/crep.htm>].

enough to allow crop production in some years, but otherwise meet the definition of a wetland — to be enrolled in CRP on a continuous basis. Up to 100,000 acres may be enrolled from any state (this may be increased to 150,000 acres after three years). The farm bill reserved 1 million acres for farmable wetlands enrollment.

Program Costs and Benefits

Acreage enrolled in CREP, continuous enrollment, or the farmable wetlands programs is generally eligible for higher payments than acres enrolled under general signups because of their higher environmental benefits, location and prevailing rental rates, and additional financial incentives for participation. However, such contracts are much smaller on average.

Figure 2. Average Contract Payment and Acreage, by Signup Type



The Congressional Budget Office estimates CRP will cost \$1.9 billion in FY2004 and \$2 billion in FY2005.⁶ NRCS estimated that, prior to 2003, monetized CRP benefits (such as increased wildlife habitat and small game hunting) totaled about \$1.4 billion per year. This figure does not include non-monetized benefits such as improved groundwater quality and wetland restoration. Critics allege that CRP is an expensive program, and that its benefits are temporary since participants are under no obligation to continue conservation practices after contracts end. Proponents counter that the estimated benefits document CRP's worth, and that not all of CRP's benefits have been or can be monetized. Moreover, they feel that it provides an incentive (especially for small farmers) to carry out land and water conservation practices they otherwise might not be able to afford, and that these practices have public benefits.

CRP Environmental Results. FSA estimates that, compared with 1982 erosion rates, CRP has reduced erosion by over 440 million tons per year on the 34 million acres enrolled in the program. Other conservation benefits NRCS has documented on these lands include the sequestration of over 16 million metric tons of carbon annually; over 3.2 million acres of wildlife habitat established; and a reduction in the application of nitrogen (by 681,000 tons) and phosphorus (by 104,000 tons). Also, participants have planted about 2.7 million acres to trees, making it the largest federal tree-planting program in history.⁷

Current Issues

With the upcoming farm bill reauthorization in 2007, the 109th Congress will likely follow several CRP issues, including long-term direction of the program, effects of the program on rural economies, and tax issues associated with CRP.

Expiration of Acres and Long-Term Direction of CRP. The most immediate concern for CRP is the scheduled expiration of more than 28 million acres between 2007 and 2010. Sixteen million of these will expire in 2007 alone, coinciding with the scheduled statutory reauthorization of the farm bill. FSA issued a notice on August 10, 2004, stating that it would extend contracts and offer early re-enrollment for these 28 million acres. But it also requested public comment, due December 8, 2004, on long-term policy questions, including: should USDA stagger CRP contract expirations to lessen the administrative cost of re-enrollments, and if so, how? Should it offer re-enrollments without competition? How can CRP ensure an equitable balance between goals (soil erosion, water quality, and wildlife benefits)? Should the EBI be modified? FSA also sought comment on appropriate performance measures for CRP, and whether CRP should focus on particular conservation practices (e.g., buffers) or geographic areas (including the areas contributing to the hypoxic zone in the Gulf of Mexico).⁸

The Effect of CRP on Local Economies. Some have raised concerns that retiring land in rural, largely agricultural economies means fewer farmers and fewer farm supply businesses in those areas. Section 2101(b) of the 2002 farm bill directed ERS to

⁶ Congressional Budget Office, January 2005 Baseline.

⁷ CRP Benefit-Cost Assessment, February 2003, and FY2002 CRP annual statistics.

⁸ USDA, "Conservation Reserve Program — Long-Term Policy," 69 FR 48447.

study the impact of CRP enrollment on rural economies and population levels. USDA's Economic Research Service (ERS) issued this report in February 2004. The report found that population trends were largely unaffected by high CRP enrollment. It also found that high CRP enrollment was associated with some job loss in rural areas between 1986 and 1992 - the years CRP was first underway - but that this was not true during the 1990s. However, the report said that national trends may mask regional adjustments, and that "local economic adjustments might be sizeable."⁹ Participants at a June 2004 national CRP conference were split on the issue: some stated that CRP enrollment negatively affected their local economies, while others pointed to external reasons for rural economic downturns including farm consolidation and global competition. The debate surrounding whether CRP negatively impacts rural economies is likely to continue.

Taxes on CRP Payments. Farmers would like to treat CRP payments as "rental income" so it would not be subject to self-employment taxes, but the IRS ruled that under certain conditions CRP payments are income and are subject to such taxes. On March 3, 2000, the Sixth Circuit endorsed the IRS' view in *Wuebker v. Commissioner*,¹⁰ reversing an earlier tax court ruling.¹¹ This issue was not addressed in the 2002 Farm Bill. In the 108th Congress, several bills were introduced to change the tax code, including the Conservation Reserve Program Tax Fairness Act of 2003 (S. 1316) and its companion bill (H.R. 4073), which would clarify that CRP payments are not subject to self-employment taxes, the Tax Empowerment and Relief for Farmers and Fishermen (TERFF) Act (H.R. 5169 and S. 665), and the Heartland Investment and Rural Employment (HIRE) Act (S. 2761). All the bills received committee referrals, but no further action was taken on them. The 109th Congress will likely revisit this issue.

⁹ US Department of Agriculture, Economic Research Service Report to Congress, "Conservation Reserve Program: Economic and Social Impacts on Rural Counties," pp. x-xiii, February 2004.

¹⁰ 205 F.3d 897 (6th Cir. 2000). See also CRS Report RS20564, *Conservation Reserve Payments and Self-Employment Taxes*, by Marie Morris.

¹¹ 110 T.C. 31 (1998), *reversed* 205 F.3d 897 (6th Cir. 2000).