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THE ACREAGE CONSERVATION RESERVE

TITLE XII OF THE FOOD SECURITY ACT OF 1985

By

Nelson L. Bills

Department of Agricultural Economics
New York State College of Agriculture and Life Sciences
A Statutory College of the State University
Cornell University, Ithaca, New York 14853

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Preface

Nelson L. Bills is an associate professor in the Department of Agricultural Economics at Cornell University. This report was prepared as part of a College-wide effort to acquaint farmers, farmland owners, and public officials in New York with the Food Security Act of 1985. The report deals with its conservation provisions. The discussion is based on the text of the Act as it appears in the December 17, 1985 issue of the Congressional Record (No. 175, Part II) and preliminary information recently released by the USDA's Agricultural Stabilization and Conservation Service (News Backgrounder, USDA Office of Information, No. 32-86, January 13, 1986; Conservation Reserve Program Announcement, USDA-ASCS, Notice CRP-1, January 13, 1986).

This summary is the author's interpretation and in no way constitutes an official interpretation of the USDA's authorities or plans for administering the conservation reserve program.

Introduction

The 1985 farm bill directs the USDA to establish an acreage conservation reserve program (CRP). The purpose of this program is to transfer cropland which is highly susceptible to soil erosion to permanent vegetative cover. Reduced soil loss caused by rainfall and wind can help maintain the productivity of the Nation's cropland resources and improve surface water quality in some cases. Removing cropland from active crop production can also help stabilize the incomes of producers and help adjust the production of some surplus commodities.

Proposals for such programs as a means for curtailing soil erosion date to the 1930s. Nearly 30 years ago, the Congress authorized a conservation reserve (later known as the Soil Bank). Although implementation was focused on production adjustment and was not closely tied to soil erosion problems, the Soil Bank program removed nearly 30 million acres of the Nation's cropland from production during the late 1950s.

Title XII of the 1985 Food Security Act once again makes cropland retirement a feature of U.S. agricultural policy and authorizes a reserve which could range up to 45 million acres in size. The USDA has the option of implementing the CRP in phases by enrolling acreage over the 1986-1990 crop years.

Legislative Intent

The new legislation gives the USDA wide latitude on program design and administration. Decisions ultimately made by USDA officials on these rules and regulations will dictate the attractiveness of the CRP to New York farmers and its subsequent impact on the State's agriculture. Title XII of the new farm legislation defines the program's general features and is discussed in this section.

Eligible Acreage

The Congress wishes to focus the CRP on "highly erodible" cropland but leaves the critical job of defining such land to the USDA. The law says that a definition must be based upon the SCS Land Capability Classification (LCC) and average annual erosion rates due to either rainfall or wind. The presence or absence of excessively high erosion is to be judged by taking each soil's soil loss tolerance (T-value) into account. Soil loss tolerances have been established from individual soil mapping units and range from 2 to 5 tons per acre per year. These tolerances estimate the maximum amount

of average annual erosion that can occur without jeopardizing a soil's long-term productivity in crop production.

Interestingly, the USDA is given the authority to extend eligibility for the CRP beyond cropland defined as "highly erodible." The USDA may include lands "...that pose an off-farm environmental threat...or...threat of continued degradation of productivity due to soil salinity." Off-farm environmental threats encompass the general problem of nonpoint-source water pollution stemming from crop production. Soil salinity is a recognized production hazard on some irrigated cropland in the arid western states.

Enrollment in the Reserve

The new legislation does not lock the USDA into any specific method, but directs attention to the possibility of enrolling acreage under contracts established on a bid basis. The law specifies an allowable contract period of at least 10 but no more than 15 years. The landowner must agree to implement an approved plan "...for converting highly erodible cropland normally devoted to the production of an agricultural commodity...to a less intensive use..." and agree to "...not use such land for agricultural purposes...". Prohibited use for agricultural purposes extends to all harvesting, including livestock grazing; the USDA, however, can authorize harvesting or grazing of forage on the conservation reserve in response to "...a drought or other similar emergency."

The law spells out rather elaborate restrictions for enrolling land that has recently changed ownership. The idea, apparently, is to thwart any efforts to acquire farmland for the sole purpose of renting it back to the government through enrollment in the CRP. One must have owned his/her land for three or more years preceding the contract year unless ownership is acquired "...by will or succession as a result of the death of the previous owner."

Conversely, the law makes it equally clear that the Congress does not want the CRP to directly interfere with farmland markets or impede the transfer of farmland from one owner to another. To this end, a contract to maintain permanent vegetative cover on the land is not binding on a new owner should the property change hands during the contract period. The new owner has the option of assuming the old contract, electing not to participate in the reserve, or looking into the possibility of negotiating a new contract with the USDA.

Program Payments

If a bid to enter land into the reserve is accepted, the USDA is authorized to share any expenses required for establishing the conservation measure and practices specified in the conversion plan. The cost-share rate on conversion expense is set by law at 50 percent. In addition, the USDA will pay an annual rental payment, intended to encourage participation by offsetting the income the owner sacrifices when the acreage is removed from crop production. The law gives the USDA the option of paying rent in cash, in kind, or some combination of the two. Payment in kind (PIK) would involve transferring commodities now held by the Commodity Credit Corporation to participants in the conservation reserve.

The total amount of rental payments, including PIK, made to any participant is limited by law to $50,000 per year. However, the law specifies that any rental payments received "...shall be in addition to, and not affect, the total amount of payments that such owner or operator is otherwise eligible to receive under this Act...". This can be interpreted to mean that farmers will have the opportunity to consider the conservation reserve in concert with Federal set-aside programs for fibers, food grains and feed grains. It also appears that a producer can enroll cropland in the CRP and participate in the new milk production termination program (the dairy "buyout").

The Participation Decision

One cannot fully evaluate the implications of the CRP for New York agriculture or give landowners substantive information on the merits of participating until the USDA has had time to review the legislation and promulgate the rules and regulations needed to administer the program. Presumably, these details will be finalized and released soon so that farmers in more temperate climates can make timely and orderly planting decisions for the 1986 crop. The Congress wants the USDA to accept bids and initiate contracts involving approximately 5 million acres for the 1986 crop year.

By law, and as a practical matter, most landowners will need to make their decision to bid on enrollment in the conservation reserve after taking into account crop yield and production cost information that can be tailored to individual farm fields. The law does not preclude enrolling whole farms in the reserve, but few (if any) farms will have a cropland base that falls within definitions of erodible cropland the USDA will use to govern program eligibility.

Expenses involved in converting enrolled acreage to vegetative cover must also be considered because the USDA only plans to pay half of these costs. And, any impact the conservation reserve might have on crop bases, quotas, or allotments on the farm will deserve consideration. Enrolling land in the conservation reserve can alter the production history of crops eligible for Federal production adjustment programs. The 1985 legislation directs the USDA to consider giving participants the option of preserving or permanently retiring the base and allotment history of land entered into the conservation reserve. Retiring any history of producing program crops can lead to reduced eligibility for production adjustment programs after the contract expires should the land return to active crop production. Lost eligibility for such programs could lead to reduced future net income in some cases and probably should be reflected in the producer's bid for an annual rent amount.

Preliminary USDA Plans for Implementing the Conservation Reserve

The USDA hopes to begin the CRP within 60 days of the law's enactment. A 10-day sign-up period, tentatively scheduled for early March, is anticipated for landowners who wish to bid on a CRP contract which would be initiated for the 1986 crop year. A second sign-up for CRP contracts for the 1987 crop year will probably be scheduled for summer 1986.

Sign-up will involve a visit to a county office so that representatives from the USDA's Agricultural Stabilization and Conservation Service (ASCS) and the Soil Conservation Service (SCS) can assist with the required paperwork. An interested landowner will be asked to designate the fields (or parts of fields) to be included in the bid, the type of cover desired for the land during the life of the contract, and the annual rent he/she wishes to receive for each acre of cropland placed in the reserve.

To enable the USDA to ascertain eligibility of the designated acreage, the landowner will also need to list the cropping pattern followed on the land during the 1981-85 crop years and indicate what, if any, conservation support practices were used or applied during this period. Such conservation support practices as contour farming or conservation tillage techniques allow farmers to produce crops with less erosion damage; in turn, the amount of erosion damage--as reflected in estimates of average annual soil loss in relation to soil loss tolerance--will affect the USDA's decision to make the land eligible for the CRP. This feature of the CRP program will be discussed below.

The CRP Contract

Preliminary materials released by the USDA indicate that farmers or landlords who own qualified acreage may sign a 10-year contract with the USDA. Under this contract, they must agree to take land out of annual crop production and put it into perennial grass, wildlife plantings, windbreaks, or trees. Further, they must agree to postpone any harvest, including livestock grazing, over the 10-year contract period. A producer will, however, be able to retain the option of returning the land to annual crop production at any time. A return to cropping voids the contract and the government must be repaid, at interest, all expenditures for annual rental fees and financial assistance given to establish permanent cover.

In the event of "national need", the USDA will make provisions for allowing producers to return land enrolled in the CRP to production without penalty if they wish to do so. Similarly, enrolled acreage may be returned to production after the contract expires without penalty or permission from the USDA.

In return, the USDA will give technical assistance to owners who wish to prepare a bid for a CRP contract and make arrangements for compensating owners whose bids are accepted. Compensation includes half the expense incurred in establishing permanent cover on the land and a rental payment for each of the 10 years that the acreage is enrolled in the CRP. The USDA has not yet announced whether these rental payments will be paid in cash or commodities released from stocks held by the Commodity Credit Corporation. Regardless, such payments would be made after October 1 each year. The USDA plans to check compliance with the contract annually to ensure that the prescribed conservation treatment measures have been applied and that the land has not been harvested, grazed, or otherwise used for commercial benefit.

Determining Eligibility

An initial step for landowners is to determine if they have cropland which is eligible for the CRP. The Congress, in effect, has delegated this determination of eligibility to the USDA. That agency must devise a working definition of highly erodible cropland and review the possibility of enrolling land with soil salinity problems or explicitly considering water quality problems off the farm.

Finally, the USDA must establish procedures for prioritizing and selecting landowners' bids for enrolling land in the CRP. Once again, the Congress has written very little specific language into the law. The USDA can adjust the

timing of contract sign-ups over the 1986-1990 crop years but the geographic focus of the CRP is not clear at this juncture. The sole geographic restriction imposed by the Congress deals with the percentage of cropland enrolled in any single county. No more than 25 percent can be placed under contract unless the USDA can show that doing so "...would not adversely affect the local economy of such county."

Based on currently available information, there is no evidence that the USDA intends to explicitly incorporate soil salinity or water quality problems into the CRP sign-up planned for the 1986 crop year. The preliminary plans focus entirely on cropland defined as "highly erodible." It appears that "pools" will be established across the U.S. to ensure that the CRP is national in scope, or at least to guard against inordinately high acceptance of contract bids in a few states or regions of the Nation. The USDA has not announced the procedures they will use to allocate CRP acreage among states and producing regions.

Regardless of geographic location, the USDA will limit bids to land defined as "CRP cropland". CRP cropland is eligible for enrollment (i.e., is defined as "highly erodible") if it is in physical condition for continued crop production and (a) falls in Land Capability Classes II, III, IV, or V <u>and</u> erodes at an annual rate in excess of 3T, <u>or</u> (b) falls in Land Capability Classes VI, VII, or VIII. CRP cropland is defined as land that was "...annually planted or considered to have been annually planted to produce an agricultural commodity other than orchards, vineyards, or ornamental planting in 2 of the 5 crop years from 1981 through 1985."

This definition makes eligibility jointly dependent upon (a) management hazard of the land--as reflected in the Land Capability Class (LCC) designation, (b) average annual soil loss--as reflected in the soil loss rate relative to "T-value", and (c) cropping history during a 1981-1985 base period. Information on LCC designations comes from published soil surveys. Cropland classified as LCC VI, VII, and VIII has the most severe management hazards in crop production, while LCC I land has no identified management hazards. Erosion above or below "3T" in LCC II, III, IV, and V cropland depends on management applied by the farm operator (type of crop, tillage practices, and use of conservation support practices) and a soil's physical susceptibility to erosion. In the Northeast, where virtually all soil erosion is due to rainfall, a soil's physical susceptibility to soil erosion is dictated by climatic patterns, slope, slope length, and the composition of a soil's parent material.

Crop type, as noted above, enters the definition of eligible cropland implicitly (when erosion rates are calculated) and explicitly when the 1981-1985 cropping

sequence is recorded. Cropping during this period must have involved the production of an annual crop for at least two years over this 5-year span. Land in orchards, vines, and a long-term sod rotation during these base years will not be considered for enrollment under this definition. Exceptions will apparently be made for owners who reduced production of an annual crop--corn or soybeans, for example--for the purpose of participating in USDA diversion or set-aside programs over the 1981-1985 period.

Some landowners' eligibility could be further restricted by the configuration of soil types, erosion rates, and cropping history in individual farm fields. Preliminary indications are that the USDA will establish an acreage minimum for an individual sign-up and will limit enrollment to fields which contain a majority of acreage which meets the CRP eligibility criteria. Thus, field shapes and sizes could conceivably prohibit a sign-up in some situations. Landowners can only anticipate restrictions of this kind by consulting with USDA representatives at the county level.