

# Conservation Provisions of the Food, Conservation and Energy Act of 2008: Evolutionary Changes and Challenges

James Pease, David Schweikhardt, and Andrew Seidl

*JEL Classifications: H59, Q58*

The Food, Conservation and Energy Act of 2008 (FCE) continues the evolution of environmental conservation programs begun in the 1985 Farm Bill. This evolution was reflected in stakeholders' priorities as policy debate began with Farm Bill listening sessions in 2005, continued throughout the legislative debate, and culminated in the final version of the 2008 bill. Producers and citizen organizations identified conservation programs as central to future U.S. farm programs (Lubben, Bills, Johnson and Novak, 2006; Environmental Defense Fund, 2007). The Bush administration reinforced the importance of conservation in the farm bill debate with its proposals of January 2007, which included a \$7.8 billion expansion of conservation programs (U.S. Department of Agriculture, 2007). However, the economic context of the debate became less favorable for conservation programs as an unusually long legislative process continued throughout 2007 and into 2008. In particular, low grain stocks, increasing corn demand from the ethanol industry, high commodity prices, and increasing food prices led some to question whether increasing production should have a higher priority than conserving natural resources.

FCE 2008 objectives shift the conservation portfolio focus from land retirement to environmental protection of agricultural lands in production (working lands). The conservation portfolio of Land Retirement, Working Lands, Agricultural Land Preservation, and Technical Assistance has been in place since the 1996 Farm Bill. Land Retirement programs such as the Conservation Reserve program (CRP, begun in 1985) remove land from production on a temporary or permanent basis and compensate agricultural landowners for a portion of the income forgone. Working Lands programs such as the Environmental Quality Incen-

tives Program (EQIP, 1996) and the Conservation Security Program (2002) provide incentives to adopt conservation activities on agricultural lands and nonindustrial private forest lands currently in production. Agricultural Land Preservation programs preserve the agricultural production capacity of farmlands by public sector purchase of temporary or permanent easements of nonagricultural development rights. Technical assistance programs provide the institutional structure for agency personnel or approved third parties to deliver expertise for planning and implementing conservation activities. To better understand the conservation portfolio, it is useful to review the development of major programs.

## Evolution of U.S. Conservation Programs

Prior to 1985, U.S. conservation programs focused primarily on soil conservation, with expertise provided by U.S. Department of Agriculture employees through the Conservation Technical Assistance Program. The current era of U.S. conservation programs began with Conservation Compliance Provisions and with creation of the Conservation Reserve Program in the 1985 Food Security Act, which retires agricultural land in exchange for 10 to 15 year annual payments based on estimated agricultural rental value. The primary stated goal of the CRP in its early years was to reduce soil erosion on highly erodible cropland (Sullivan, Hellerstein, Hansen, Johannson, Koenig, et al., 2004). CRP came to be directed at an evolving set of conservation objectives with only a single policy tool, long-term land retirement. This approach failed to address two issues of environmental protection in agriculture. First, CRP failed to address many environmental impacts of agricultural production such as water quantity and quality and wild-

©1999–2008 CHOICES. All rights reserved. Articles may be reproduced or electronically distributed as long as attribution to *Choices* and the Agricultural & Applied Economics Association is maintained. *Choices* subscriptions are free and can be obtained through <http://www.choicesmagazine.org>.

life habitat. Second, land retirement provided no means of achieving conservation objectives on land actively engaged in agricultural production. Consequently, these additional environmental policy objectives led policymakers to create new policy tools (Batie and Schweikhardt, 2007).

Because of CRP's narrow focus, the Federal Agriculture Improvement and Reform Act of 1996 established the Environmental Quality Incentives Program, which addresses a wider range of environmental concerns on agricultural lands in production. Environmental quality and agricultural production were considered compatible goals, and EQIP was designed to help producers meet new environmental standards (Zinn and Canada, 2007). The program provided cost-share and (optionally) incentive payments for producers to initiate and maintain conservation activities on working lands, with a specific focus on mitigating water pollution. Initially, 50% of EQIP funds were directed to solving resource problems on livestock operations, but waste management structures were ineligible for funding, and EQIP payment limits were so low that they discouraged participation by most large operations. The 1996 Act also introduced the Wildlife Habitat Incentives Program (WHIP) and the Farmland Protection Program (later changed to the Farm and Ranchlands Preservation Program) to purchase farmland development rights.

The 2002 Farm Bill increased both the funding and scope of issues addressed by conservation programs. CRP contract evaluations began to consider soil erosion, water quality protection, and wildlife habitat. The CRP acreage cap was increased, and other farm land retirement programs such as the CRP Farmed Wetlands pilot program, the Conservation Reserve Enhancement Program, and the Wetlands Reserve Program were continued and expanded. With funding of \$4.6 billion in the 2002 Act, EQIP

could enhance its response to livestock resource concerns and pursue broader conservation priorities of reducing nonpoint source water pollution, air quality impairments and erosion, as well as wildlife habitat deterioration. Eligibility was broadened, 60% of funding was directed to livestock resource concerns, and a new payment limit of \$450,000 was established. The 2002 Act also created the Conservation Security Program, a working lands program designed to reward producers who achieve and maintain above-benchmark standards of conservation management. This "green payments" program offered both cost-share and incentive payments to reach, maintain, or improve land stewardship by participation in one of three contract performance tiers. Funding was restricted after enacting the 2002 Act, so the program was offered only in selected watersheds in FY2004-06.

The evolution of conservation policy and programs has changed expense outlays among Land Retirement, Working Lands, Agricultural Land Preservation, and Conservation Technical Assistance programs (Figure 1). Major conservation program expenditures have increased by 79%, from \$2.56 billion in FY1996 to \$4.59 billion in FY2007. Land retirement funding represented approximately 70% of total conservation expenses until FY2001, and, while continuing to increase in nominal terms, declined to 52% of total expenditures in FY2007. Working Lands program funding increased from an average of approximately \$200 million per year during FY1996-01 to nearly \$1.5 billion in FY2007. Funding for farmland preservation programs has become a significant and growing part of conservation spending. However, technical assistance has not kept pace with increased conservation program funding, and has fallen steadily in absolute terms since FY2004. Technical assistance is primarily funded through annual appropriations to the Conser-

vation Technical Assistance program, but also receives payments for technical assistance to the CRP program and other program funding allocations. As such, Figure 1 underestimates to some extent actual expenditures for technical assistance.

## Conservation Provisions in the 2008 Farm Bill

FCE increases conservation funding authority by \$4 billion over FY2008-12, most of it as mandatory funding with no requirement for annual appropriations. FCE provisions reflect an evolution of the U.S. conservation program portfolio to emphasize conservation on working lands. The following presents selected changes in Title II of the 2008 FCE, along with additional detail on CRP, EQIP, and the Conservation Stewardship Program (CSP).

### Land Retirement Programs Continue to Play a Major, but Diminishing Role

- As shown in Figure 1, land retirement program expenses are forecast to total \$13.03 billion over FY2008-12 and average 8% higher than FY2007 expenses, but fall throughout the period as a percentage of total conservation program expenses.
- Currently, 766,000 active CRP contracts cover 34.7 million acres. Over FY2008-12, contracts will expire on an average of 3.8 million acres per year, raising questions about the environmental impacts of returning this land to production.
- The enrollment cap for CRP is continued at 39.2 million acres for FY2009, but will be reduced to 32 million acres for FY2010-12, while the Farmable Wetland Program cap is doubled to 1 million acres.
- Current CRP contracts can be amended to allow land uses such as biofuel production, wind turbines and grazing under certain conditions.

- New provisions will permit the transfer of lands under CRP contract to beginning, underserved or other special status farmers, with the existing owner receiving a bonus of up to two years of rental payments.
- The enrollment limit for the Wetlands Reserve Program is increased nearly one-third to 3.041 million acres, and the Wetlands Reserve Enhancement Program is established to address wetlands objectives at the watershed scale.

#### **Working Lands Programs Receive Most Funding Emphasis**

- As shown in Figure 1, working lands program funding is forecast to total \$11.88 billion over FY2008–12; it averages 61% higher than FY2007 expenses and is 45% of total conservation expenses in FY2012.
- In FY2007, there were 41,700 EQIP contracts in 50 states and territories with over \$784 million in contract commitments.
- EQIP funding is forecast to total \$7.23 billion over FY2008–12 and is 74% higher in FY2012 than in FY2007.
- EQIP payments are based on incurred costs (up to 75% cost-share) and foregone income (up to 100%) associated with practice adoption/maintenance, except that socially-disadvantaged, limited resource, and beginning producers will receive cost-share payments that are 25% above those of other producers (up to a maximum of 90%).
- EQIP payments may be made for conservation practices related to organic transition or production, for forest management practices on private nonindustrial forest land, or for water conservation or irrigation practices.

- Payments under EQIP contracts may not exceed \$300,000 in any 6-year period.
- The Conservation Security Program is reconstituted as the Conservation Stewardship Program (CSP). In FY2007, 19,391 active contracts covered approximately 15.4 million acres.
- The CSP receives total budget authority of \$3.79 billion over FY2008–12, and FY2012 forecast expenditures are 199% of FY2007 expenses.
- CSP is given an enrollment target of 12.769 million acres per year, and over FY2009–12, USDA is directed to manage the CSP such that payments average no more than \$18 per acre.
- The reconstituted CSP provides a simpler system for adopting, improving, and maintaining conservation practices rather than the 3-tier system used under the 2002 Farm Act.
- Funding authorization for the Wildlife Habitat Incentives Program is continued at \$85 million per year, cost-share payments are increased to 25% of costs incurred, and eligible lands include private agricultural, nonindustrial private forest and tribal lands. In FY2007, WHIP had 358,000 acres under contract.

#### **Agricultural Land Preservation Programs Expanded**

- As shown in Figure 1, land preservation program forecast expenses total \$1.04 billion over FY2008–12, averaging more than triple the actual FY2007 expenses for purchase of development rights. Farm and Ranchlands Preservation Program (FRPP) purchased development rights on 533,000 acres over FY1996–07.
- Funding for the FRPP is increased from \$97 million to \$200 million per year, and the objectives of the

program are expanded to include protecting agricultural use and related conservation values and increasing the opportunities for partnership with government and nongovernment organizations.

- The Grasslands Reserve Program is authorized to expand ten-fold to enroll 1.22 million acres during FY2008–12, the definition of eligible lands is expanded to include those with historical or archeological importance, and up to 10% of enrollment may come from expiring CRP contracts.

#### **Technical Assistance Funding Stable**

- There are no new funding authorizations for technical assistance from Natural Resources Conservation Service (NRCS) or through Technical Service Providers, and because technical assistance is subject to annual appropriations, it is not expected to increase over FY2008–12.

#### **Other Provisions**

- Most conservation programs have program-specific payment limits, and a blanket income limitation prohibits conservation payments to persons or entities with average adjusted gross income greater than \$1 million unless at least two-thirds of adjusted gross income is farm income.
- Direct attribution to a person is required for conservation program payments.
- Cooperative conservation projects at the community, ecosystem or watershed scale will receive 6% of all conservation program funds.
- USDA is to develop technical guidelines for measuring and reporting environmental services provided by farm, ranch, and forest lands, with priority directed to emerging carbon markets.

## Opportunities and Challenges for the FCE 2008

On its surface, the Food, Conservation, and Energy Act appears to be a logical extension of past trends—an increase in funding for virtually all programs without dramatic program revisions. However, FCE 2008 and the 2002 Farm Bill can be viewed as “two steps forward, one step back” for conservation. On one hand, program funding and focus have expanded rapidly, while on the other, political distaste continues for targeting conservation programs to the most critical environmental problems such as impaired waters rather than allocating funds “equitably” among states (Claassen, 2007). Increased emphasis on working lands programs promises better environmental results per program dollar, but USDA is prohibited from selecting contract proposals on the basis of lowest cost. Although conservation funding increases in FCE, conservation costs have risen even faster during the commodity boom, both in terms of cash investments and of producer income foregone. Moreover, it seems unlikely that FCE

spending will meet the levels outlined in the Act. Federal budget deficits are rising rapidly and U.S. economic conditions are worsening. It is likely that Congress will take action to restrict nondefense spending, and “mandatory” conservation spending is likely to be a target.

Viewed from an alternative perspective, FCE 2008 signals the maturation of the conservation program portfolio in a new era. What issues and questions will be most critical in the next era? First, conservation programs now constitute a central element of farm policy—no future farm bill will be passed without a significant, possibly predominant role for conservation programs. Second, the 2008 bill appears to both broaden and strengthen the political commitment of all stakeholders to conservation programs. The political economy of programs that meet the interests of farmers, environmental activists, and the general public suggests the emergence of a stable social and political trade-off between increased agricultural production and improved environmental quality. As a consequence, all farm bills in the foreseeable future

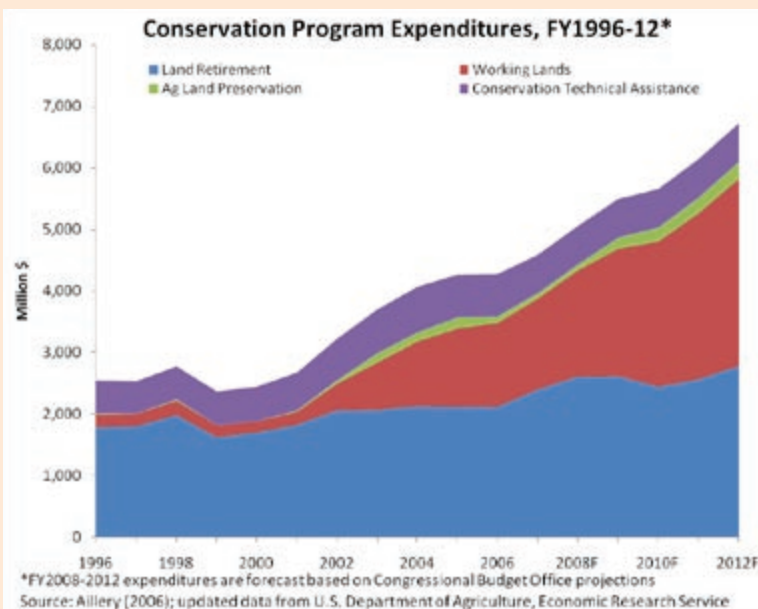
will probably have prominent working lands programs addressing a wide range of environmental issues. Third, as the emphasis on technical assistance-intensive conservation practices on working lands grows, the issue of human capital resources in NRCS must come to the fore. Simply said, an agency whose funding for technical assistance has stagnated during rapid growth of conservation program funding cannot be expected to adequately deliver and monitor programs. Some have referred to staffing issues at federal agencies as having reached “crisis” levels (Liebowitz, 2004). Questions requiring closer scrutiny in the near future include whether such a situation exists at NRCS, and what human capital investments are necessary to deal with the problem. Fourth, as conservation and agricultural policy develop, the issue of policy consistency will become more acute. Social and political questions to be addressed include: To what degree is a U.S. biofuels-driven energy policy consistent with conservation goals and policy? To what degree should income support or risk management policies be merged with working lands conservation policies, and what policy tools and procedures will be needed to achieve multiple policy targets (Lubowski, Bucholtz, Claassen, Roberts, Cooper et al., 2006; Batie and Schweikhardt, 2007)? In all likelihood, the next era of conservation policy will be dominated by these questions.

### For More Information

Aillery, M. (2006, March). *Contrasting Working-Land and Land Retirement Programs* (Economic Brief Number 4). Washington, DC: U.S. Department of Agriculture, Economic Research Service. Available online: <http://www.ers.usda.gov/Publications/EB4/>.

Batie, S. and Schweikhardt, D. (2007). *The Green Payments Debate: Alternative Paradigms and*

Figure 1. Actual and Forecast Conservation Program Expenditures, FY1996–12





- Resulting Tradeoffs. In *Perspectives on 21st Century Agriculture: A Tribute to Walter J. Armbruster*, Oak Brook, IL: Farm Foundation, 2007.
- Claassen, R. (2007, May). Emphasis Shifts in U.S. Conservation Policy. Amber Waves, Perspectives on Food and Farm Policy, Volume 5, May 2007. Washington, DC: U.S. Department of Agriculture, Economic Research Service, Available online <http://www.ers.usda.gov/AmberWaves/May07Special-Issue/Features/Emphasis.htm>.
- Environmental Defense Fund (Press Release 2007, October 2). New Polls in Five States Show Farm Subsidy Cuts and More Conservation Spending Would Improve Public's View of Congress.
- Liebowitz, J. (2004). *Addressing the Human Capital Crisis in the Federal Government: A Knowledge Management Perspective*. Amsterdam: Butterworth-Heinemann.
- Lubben, B., Bills, N., Johnson, J., and Novak, J. *The 2007 Farm Bill: U.S. Producer Preferences for Agricultural, Food, and Public Policy* (Publication 2006-01, September. National Public Policy Education Committee. Oak Brook, IL: Farm Foundation.
- Lubowski, R., Bucholtz, S., Claassen, R., Roberts, M., Cooper, J., Gueorguieva, A., and Johansson, R. (2006, August). Environmental Effects of Agricultural Land-Use Change: The Role of Economics and Policy. Economic Research Report No. ERR-25, August 2006. Washington, DC: U.S. Department of Agriculture, Economic Research Service. Available online <http://www.ers.usda.gov/Publications/ERR25/>.
- Sullivan, P., Hellerstein, D., Hansen, L., Johansson, R., Koenig, S., Lubowski, R., McBride, W., McGranahan, D., Roberts, M., Vogel, S., Bucholtz, S. (2004, October). The Conservation Reserve Program: Economic Implications for Rural America. Agricultural Economic Report No. (AER-834). Washington, DC: U.S. Department of Agriculture, Economic Research Service. Available online <http://www.ers.usda.gov/Publications/AER834/>.
- U.S. Department of Agriculture (2007, January). *2007 Farm Bill Proposals*. Available at <http://www.usda.gov/documents/07finalfbp.pdf>.
- Zinn, J. and Canada C. (2007). Environmental Quality Incentives Program (EQIP): Status and Issues (Congressional Research Service Report RS22040).
- James Pease (peasej@vt.edu) is Professor, Department of Agricultural and Applied Economics, Virginia Tech, Blacksburg, Va. David Schweikhardt (schweikh@msu.edu) is Professor, Department of Agricultural, Food, and Resource Economics, Michigan State University, East Lansing, Mich. Andrew Seidl (andrew.seidl@colostate.edu) is Associate Professor, Department of Agricultural and Resource Economics, Colorado State University, Fort Collins, Colo.*
- Appreciation is expressed to Roger Claassen, U.S. Department of Agriculture, Economic Research Service for his assistance in providing program funding data.*