August 2015

The Future of the Conservation Reserve Program

Michael D. Duffy
Iowa State University, mduffy@iastate.edu

Darnell B. Smith
Iowa State University

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Table 1: FCIC 1996/97 Iowa crop year statistics as of June 3, 1996

<table>
<thead>
<tr>
<th>Policy</th>
<th>1995/96</th>
<th>1996/97</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(Number of Policies)</td>
<td></td>
</tr>
<tr>
<td><strong>Corn</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MPCI</td>
<td>101,342</td>
<td>84,750</td>
</tr>
<tr>
<td>CRC</td>
<td>NA</td>
<td>30,780</td>
</tr>
<tr>
<td>GRP</td>
<td>2,008</td>
<td>2,116</td>
</tr>
<tr>
<td>IP</td>
<td>NA</td>
<td>22</td>
</tr>
<tr>
<td><strong>Soybeans</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MPCI</td>
<td>94,132</td>
<td>84,405</td>
</tr>
<tr>
<td>CRC</td>
<td>NA</td>
<td>22,259</td>
</tr>
<tr>
<td>GRP</td>
<td>1,269</td>
<td>1,415</td>
</tr>
<tr>
<td><strong>Corn &amp; Soybean Policies as a Percent of Total Iowa Policies</strong></td>
<td>93.6</td>
<td>95.6</td>
</tr>
<tr>
<td><strong>Buy-Up Policies as a Percent of Total Iowa Policies</strong></td>
<td>67.2</td>
<td>79.8</td>
</tr>
<tr>
<td>NA = Not applicable</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The Crop Insurance Reform Act of 1994 redirected federal farm policy toward a more structured approach to agricultural risk management. It effectively made ad hoc agricultural disaster legislation more difficult to enact and established the Catastrophic Coverage (CAT) insurance program. Additionally, CAT coverage became mandatory for most farm program participants. (This requirement was removed in the FAIR Act.) These federal policy changes would tend to increase crop insurance program participation. Before this, average participation for Iowa was approximately 45 percent.

For the current crop year, two new revenue insurance products, Crop Revenue Coverage (CRC) and Income Protection (IP) were made available on a limited basis — see Iowa Ag Review, Vol. 2, No. 2 for details. As Table 1 illustrates, the 1996 sales for CRC were quite interesting. Even though the product was newly developed with little time for marketing, CRC was very well received in Iowa and Nebraska, the two states in which it was offered. The number of policies sold in Iowa for corn and soybeans for traditional Multiple Peril Crop Insurance (MPCI), Group Risk Plan (GRP), and CRC are shown in the table. For these two crops, preliminary numbers indicate that almost 25 percent of policies sold this year were for revenue insurance.

Sales were roughly five times greater than anticipated. The numbers indicate that, proportionately, Iowa producers are purchasing buy-up coverage in 1996 (additional insurance above minimum requirements) to a greater degree than before. As a percentage of total policies, buy-up policies accounted for 79.8 percent in 1996, an increase of 12.6 percent over 1995 levels.

In summary, preliminary numbers indicate that crop farmers in Iowa are actively using insurance to manage production risk. The popularity of CRC indicates that revenue insurance is a well-received risk management tool for Iowa agricultural producers.

**The Future of the Conservation Reserve Program**

*Michael Duffy, 515/294-6160*

*Darnell B. Smith, 515/294-1184*

The Conservation Reserve Program (CRP), enacted in 1985, was the largest single land retirement program in history with current enrollment above 36 million acres. When initially passed in the 1985 Food Security Act, the CRP was intended, primarily, to provide an incentive to remove highly erodable land from production for 10 years. In subsequent years its use was expanded to include, among other objectives, producer income support and the reduction of surplus commodities by restricting production.

The 1996 farm bill, the Federal Agriculture Improvement and Reform (FAIR) Act, contains several key provisions that will affect CRP administration and enrollments in the years ahead. This column discusses some of the key features of the FAIR Act with respect to CRP. To provide insights about potential Iowa enrollment, the results of a survey funded by the Leopold Center covering land use for early terminated CRP contracts are also presented below.

**Changes in CRP Provisions of the FAIR Act**

*The FAIR Act reauthorizes CRP allowing for contract extension and for new enrollments but limits the total number of acres that can be enrolled to the current level of 36.4 million acres. New sign-up procedures have not yet been announced but the Act states that the new payment rates can not be higher than the prevailing local market rates. Although there is uncertainty about future sign-up criteria and payment structure, new sign-ups will probably be based on the criterion established for the 13th sign-up. In other words, priority will be given to water quality protection.*

The FAIR Act allows some participants to terminate contracts that have been in effect for more than five years. There are several restrictions on which contracts can be terminated, and not all contracts are eligible for
early termination. Contracts that were entered into after January 1, 1995, contracts on land with an erodibility index of greater than 15, lands close to a stream or enrolled under wetland criteria, and land devoted to windbreaks, grass waterways, filter strips and so forth are NOT eligible for the early out option. There are an estimated 33 million acres that have been enrolled for more than 5 years. Of these, approximately 12.3 million acres are not eligible for the early out, leaving a potential of approximately 20 million acres of crop production. How much of this potential area ultimately is returned to production depends on producer's perceptions of market conditions and on program administration, essentially, the payment incentive structure employed.

**Market Conditions and Program Payments**

The current tight wheat and feed grain supplies are, no doubt, impacting much of the Federal decision making process with respect to the CRP acres. One might surmise that, over the next few years, program incentives might shift towards fewer acres enrolled. It is generally thought that highly erodible acres and other fragile areas will, in general, continue to remain in the program while, at the same time, as many acres as possible return to production.

The tight supplies and resulting higher prices will influence participant's enrollment and production decisions as well. Exactly how producers will react to these prices and policies, how many contracts will be terminated early, and how many acres are returned to production is not known at this time. A clue to future behavior, however, is provided in evaluation of land use for the participants who chose the early-out option last year.

**Land Use Survey Results**

The ISU Extension CRP committee with funding from the Leopold Center surveyed participants who terminated contracts early last year. There were approximately 3,100 people who terminated contracts. A survey was sent to each one of them, and there were 936 usable responses (30 percent). The respondents represented approximately 97,000 acres of the total 143,000 in Iowa where the contracts were terminated. When examining the results of the survey it is important to remember that last May when the contracts could be removed, corn was $2.30 per bushel and soybeans were $5.25 per bushel. Early this year, prices averaged closer to $4.50 and $7.80 per bushel for corn and soybeans, respectively.

The survey respondents had an average of 468 acres in CRP and they removed on the average 106 acres. Slightly less than half of the respondents (46 percent) removed more than 75 percent of their total CRP land. Over three-fourths (78 percent) of the contracts removed were scheduled to terminate in 1996 or 1997. The land removed was fairly evenly scattered in the CRP areas around the state.

Just over half (52 percent) of the survey respondents reported using the land for corn or soybean production. Another 44 percent said the land would be used for livestock hay or grazing. Only 4 percent reported selling the land, and several respondents indicated that the land would be used for nonagricultural purposes.

Approximately half of the land removed for corn and soybeans was farmed by the owner. There were 45 percent of the respondents who said the land was rented, and the remainder was custom farmed. The average cash rent was $91 per acre.

Grassed waterways were the most common conservation practice on the land used for corn and soybeans. Almost half (46 percent) of the respondents reported using this practice.

There were soil tests on forty percent of the land used for crop production. Approximately two-thirds of this land tested adequate in phosphorous and potassium.

Soybeans were planted on almost two-thirds of the land used for crop production. The reported soybean yields were very close to the yield goals, 39 and 40.3 bushels per acre, respectively. Corn yields, however, were lower than expected. The average yield goal was 126 bushels, but the average reported yield was only 109 bushels per acre.

Weed management represented the most serious production problem. Weed management was listed as a major problem by 18 percent of the respondents and as a minor problem by 47 percent of the respondents. Only 12 percent of the respondents reported major problems with planting. Two-thirds of the respondents reported no problems with respect to insect or soil and fertility management.

As noted, 44 percent of the respondents said that the early terminated contract land would be used for haying or grazing. Over two-thirds of these respondents said they took the land out to meet feed needs, and almost a fourth said the land was removed to increase cattle numbers.
Conclusions

Numerous CRP decisions will be made by farmers and policy makers over the next several years. There have been many benefits to the CRP; the most obvious has been reduced soil erosion with consequent water quality effects, but there have also been other benefits, including an increase in wildlife populations. What the future holds for CRP land and the benefits from the program are an unknown at this time. Unfortunately, from a conservation perspective the program is ending with historically high grain prices and at the low point in the cattle cycle.

Strict monetary returns would seem to indicate that the majority of the land would be returned to production. However, analysis of last year's early out decisions indicates that there is a degree of reluctance to terminate CRP contracts (almost 80 percent of the contracts terminated were scheduled to end within two years), and not all of the land is returned to crop production (52 percent in corn and soybeans, 44 percent haying and grazing). As noted earlier, these contracts were terminated in May of 1995 when market returns were lower and before flexibility contracts. Thus, the economic incentives for early termination of CRP contracts, and to return that area to row crop production are much higher now. This implies that corresponding percentages likely represent lower bounds.

Again from a conservation perspective, much of the land that was returned to production was not soil tested and an insecticide was used. Insurance type treatments (broadbased herbicide and insecticide applications) have been shown to lead to overuse of inputs and decreased profits. Hopefully, as the CRP evolves, farmers will be better positioned to take advantage of market opportunities and follow sound production practices as well.

CARD Sets Fall Policy Conference Dates

CARD's 1996 Fall Policy Conference will be presented on two different days at opposite ends of the state. On September 12, 1996, Iowa Lakes Community College in Emmetsburg will host the program. On the following day, September 13, 1996, the program will move to Indian Hills Community College in Ottumwa.

"Market - Based Agriculture: Opportunities and Challenges" will feature several speakers from the CARD/FAPRI staff, including FAPRI co-director, William H. Meyers discussing the long- and short-term outlook for U.S. and international agriculture. CARD Director Stanley Johnson and research division head Bruce Babcock are also slated to participate in the program.

Sessions will run from 9:00 am to 4:15 pm. Sponsors of the conference are CARD, ISU Extension, and the two community colleges hosting the events.

The registration fee for the conference at either location is $35 before September 6, 1996, and $40 after September 6, 1996. Registration brochures with additional information on the program and how to sign up to attend are available from your local county Extension office or from Judith Pim at 515/294-6257.