

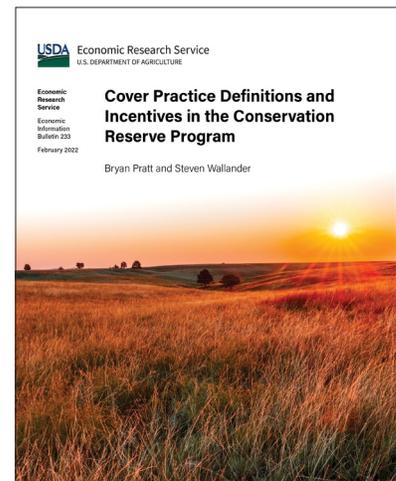


# Cover Practice Definitions and Incentives in the Conservation Reserve Program

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## What Is the Issue?

USDA's Conservation Reserve Program (CRP) is one of the largest and longest running programs to provide payments for environmental services. Landowners enrolled in the program remove their environmentally sensitive cropland from crop production and maintain an approved conservation cover for the 10- to 15-year term of the CRP contract. Most land is enrolled in CRP through the General Signup, a competitive offer process which is the focus of this report. This report explores the tradeoff between quality and cost for program participants and USDA. Every offer in each General Signup is scored using the Environmental Benefits Index (EBI) ranking tool. The EBI reflects differences in the environmental sensitivity of the land, the selected conservation cover, and annual cost. This study examines recently developed data on the costs of cover practices to demonstrate how CRP's use of ranking points in the EBI and cost-share payments combine to incentivize some participants to adopt higher public-benefit practices.



## What Did the Study Find?

Producers submitting offers in CRP General Signups must choose between a variety of cover practices. The choice of practice impacts the probability that their offer is accepted, and it also affects the costs of practice establishment. This report identifies seven common practice choices and two supplementary practices to demonstrate the underlying program incentives. In this report, the use of “Base,” “Premium,” and “Native” refers to variation in cover options within the standard program cover practice codes. The USDA, Farm Service Agency (FSA) does not use these or any other terms to identify these options. They are identified in FSA documentation only by their descriptions and point values.

- In the 2013, 2016, and 2020 General Signups, the seven most common cover practices represented well over half of total offered acreage: two non-native grassland practices (CP1–Base and CP1–Premium), two native grassland practices (CP2–Base and CP2–Premium), and three wildlife practices (CP4D–Base, CP4D–Native, and CP25).

ERS is a primary source of economic research and analysis from the U.S. Department of Agriculture, providing timely information on economic and policy issues related to agriculture, food, the environment, and rural America.

- Between 10 and 20 percent of offers include a supplementary wildlife or pollinator practice (CP12 and CP42) on part of the offered acreage.

For the offer process, participants select cover practices based on the incentives created by the EBI and the net cost to the participant after considering any cost share.

- Higher quality cover practices earn more EBI points, but typically cost more to establish than the lowest scoring practices.
- The most common practice is the higher species count version of a native grass mix (CP2–Premium). On land that is establishing a new cover, this practice is more than four times the cost of the simplest possible mix of non-native grassland (CP1–Base) (\$107 versus \$25 per acre).
- The net cost per acre for CRP participants is lower due to the FSA cost-share payments—intended to defray the costs of cover establishment and maintenance—typically reimbursing 50 percent of total costs.
- Within each cover practice, there is variation in observed establishment cost, due to differences in State standards, soil types, climate, and other factors. In the Plains and Mountain States, the median total cost of upgrading from CP1–Base to CP2–Premium ranges from \$21 to \$43 per acre. In the Midwest, the median total cost of upgrading ranges from \$65 to \$112 per acre.

Based on the observed relationship between practices choices and costs combined with a simple conceptual model, this study predicts the impacts of changing the incentives built into CRP by altering the EBI or the statutory cost-share payment rates for particular practices.

- Generally, CRP participants with lower net costs for upgrading practices are more likely to use higher quality practices. We estimate that if the net cost to the farmer of CP2–Premium was to decrease by \$10 per acre, approximately 0.6 percent of offered acreage would move towards that practice.
- An alternative policy approach is to further increase the number of points awarded to higher quality practices. This would indirectly increase program costs through both additional cost-share and higher rental payments.

## **How Was the Study Conducted?**

The USDA, Economic Research Service (ERS) combined two datasets from the USDA, Farm Service Agency (FSA) administrative data for this study. Cover practice selection rate data are obtained from the CRP “offer” files, which record all CRP General Signup offers. Cover practice costs are obtained from the CRP receipts data that detail reimbursed and unreimbursed costs for implemented practices. This cost analysis relies exclusively on contracts from Signup 45 (2013).

Using these data on the cost and choice of cover practices, we estimate the relationship between practice cover costs and choices among offers enrolling new land in Signup 45. Using this empirical exercise and a simple conceptual model grounded in the existing literature on the CRP, we analyze how several program design options available to FSA or Congress would change cover practice choices and program costs.