Whither the CRP: expirations, enrollments, and responses to changing commodity prices

Extension Section Crops Outlook track session
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The views expressed are the authors and should not be attributed to the Economic Research Service or the USDA

Background

Current enrollment (4/2010): 31.3 million acres

- Current acreage is a 5.5 million acre drop from the 2007 peak (36.8 million)
- Current acreage includes 4.5 million acres of continuous signup
- Average cost per acre: $45 for general, $102 for continuous

Source: ERS using FSA CRP contract data as of October 2009
CRP enrollment activity summary (FY 2011 President’s budget, mid session review)


CRP: projected acreage and budget (FY 2011 President’s budget)

Next signup ...

• About 4.5 million acres are set to expire on 9/30/2010
• Anticipate a general signup sometime mid – Summer 2010.
• Goal is to reach, or get near to, the 32 million acre program cap

What about continuous (including CREP)

• FSA can enroll 4.2 million acres and still have room for expected growth in continuous signup

A long term notion:
• *keep* “a few hundred thousand acres” on reserve
• refresh this reserve on a yearly basis (using expiring general signup acres)

How much should continuous grow?
• What are appropriate incentives?
• What initiatives (sage grouse, lesser prairie chickens, hypoxia, etc) should be prioritized.
How to pay for the CRP

• If/when CRP rental rates increase, causing program costs to increase, PayGo requirements should not be a problem, but if costs increase enough, Congress or the Administration will likely be concerned.

  Changes to base soil rental rates for CRP have not been subject to PayGo, because they are not the result of policy changes. PayGo applies changes in procedures (i.e.; changes in targeting, increase in acreage).

• Current USDA operating assumption (from June 2010 news release) ....

  Final Draft Crop Insurance Agreement ... generates $6 Billion in Savings: $4 Billion for Deficit Reduction, $2 Billion for Critical Farm Bill Programs ... 

  ... include ... increasing Conservation Reserve Program (CRP) acreage to the maximum authorized level; investing in new and amended Conservation Reserve Enhancement Program initiatives; and investing in CRP monitoring.

Source: CRP Supplemental Programmatic Environmental Impact Statement
A Speculation: Impacts of Higher Commodity Prices on the CRP

Simulated CRP's, under several policy scenarios and their associated commodity prices...

<table>
<thead>
<tr>
<th>Description</th>
<th>baseline</th>
<th>2007</th>
<th>15 billion gallon biofuel (15b)</th>
<th>Summer 2008</th>
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<tbody>
<tr>
<td>Uses prices prevalent in 2005, which reflect commodity prices prevalent when most current CRP contracts were enrolled</td>
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<tr>
<td>Uses prices prevalent in 2007. These prices are fairly close to &quot;current&quot; prices</td>
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<td>Uses ERS's REAP model to generate predicted prices with biofuel production at 15 billion gallons</td>
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<td>Uses the &quot;peak&quot; prices observed by USDA in the summer of 2008</td>
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<tr>
<th>Prices</th>
<th>Each scenario is defined by a price regime.</th>
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<tbody>
<tr>
<td>Corn ($/bushel)</td>
<td>2.00</td>
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<tr>
<td>Wheat ($/bushel)</td>
<td>3.42</td>
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<tr>
<td>Soybeans ($/bushel)</td>
<td>5.66</td>
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</tbody>
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One, or several, sets of SRRs were considered for each scenario.

SRR used
- 2005 SRRs
- 2007 SRRs
- adjusted 2007 SRRs
- large adjusted 2007 SRRs
What happens if a $1.1 billion expenditure cap was imposed?

- In the 2007 scenario, only 20 million acres could be enrolled.
- In the 2007 adjusted and 15b adjusted scenarios (where SRR are increased across the board), only about 15 million acres could be enrolled.

If commodity prices stay at relatively high levels, impacts on the program can be significant.

Impacts can be offset by updating CRP rental rates, which will not be cheap.

To the extent that rental rates do not adjust, fewer acres will be offered, with a commensurate decrease in the EBI scores of accepted acres.

Percent change in acreage across different scenarios, by farm production region

As prices rise, CRP acreage will shift to lower productivity regions.

Note that this assumes “across-the-board” rental rate increases.

More geographically disaggregated increases in rental rates could change these results.

Source: USDA/ERS Likely To Bid model simulations
For further discussion of the “Impacts of Higher Commodity Prices on the CRP,”

• check out my poster (at today’s 3PM poster session).
• see a recent (June 2010) Amber Waves article
  (http://ers.usda.gov/AmberWaves/June10/Features/ChallengesFacingCRP.htm)
• keep an eye open for a USDA report (hopefully in press by 2011)