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FEDERAL CONSERVATION PROGRAMS

What's New for North Carolina Farmers?

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Introduction

The influx of people into North Carolina continues at a steady pace. With higher populations, it is inevitable that development will boom. Mountain and coastal tourism bring many more people into the state for a short period of time. At the same time, the agricultural sector in North Carolina is healthy and growing. Generally, we think of growth as a good thing. Incomes rise, more cultural amenities are supported, and roads are improved. But economic growth sometimes results in unwanted costs as well. Many of these are called external costs because they are not fully borne by the same group that enjoys the benefits. Run-off water often contains nitrogen from lawns and farm field fertilization and nutrient-rich water ends up in the state's waterways. This results in higher water treatment costs downstream and may affect the downstream tourist industry. Odor generated by livestock farms or paper mills, for example, can also negatively affect surrounding residential areas. Land clearing for development or agricultural expansion can destroy wildlife habitat. This is a concern to the many people who enjoy the wilderness experience or just care about the existence of wildlife.

There are several ways these externality problems are solved. One method is for the parties involved to meet and negotiate a solution. This works well if there are a small number of people involved in the dispute and usually results in one party compensating the other in some way. For larger groups, however, the costs of negotiating with each other can become prohibitively high. In this case, oftentimes one or more levels of government become involved. For example, the North Carolina General Assembly passed several laws recently which restrict how certain types of farmers can use their land, produce their commodities, or dispose of their waste. The laws are intended to reduce the portion of the externality problem believed to come from farms. In general, these restrictions also impose additional costs on the farmers they impact.

The focus of this issue is to explain and discuss selected federal programs designed to assist farmers solve some externality problems. The previous issue of the *North Carolina State Economist* (July-August 1997) explained and discussed state-enacted programs to assist farmers reduce agricultural production externality problems. A common feature in federal and state externality reduction programs often includes the offer of a partial subsidy or a cost-share arrangement with farmers. In return an individual producer agrees to do something that will lessen an action's external effect(for example, construct a buffer zone around streams, build a more modern waste management system, etc.) in exchange for a payment from the government to cover some of the cost.

Environmental Quality Incentive Program (EQIP)

Environmental Quality Incentive Program

The 1996 Farm Bill introduced several new programs to provide cost share funds, technical assistance, and incentive payments to farmers for conservation practice adoption. The centerpiece of the Conservation Title of the Farm Bill is the new Environmental Quality Incentives Program (EQIP). The official rules to implement this program were not finalized until May 1997, about one year after the Farm Bill legislation was passed.

This program gives a lot more flexibility and decision making authority to state and local agencies compared to past federal cost share programs. This program provides $200 million/year with about half of the funds designated for crop farms and the remaining funds available to livestock farmers. Cost sharing for waste management systems is available only for small, "family" livestock farms. While the definition of a large livestock farm is one that has more than 1,000 animal units, the State Conservationist, head of the state office of the Natural Resources Conservation Service of USDA (NRCS), in each state has the authority to appeal to the Chief of NRCS for an adjustment in the definition based on state norms.

Local conservation district committees were asked to assess and rank/order environmental issues to be addressed using EQIP funds. North Carolina committees decided upon the following priority list: 1) Animal Waste Disposal, 2) Soil Erosion, 3) Wildlife Habitat Loss, and 4) Agricultural Chemical Leaching to Groundwater.

The State Conservationist, with guidance from local conservation district committees and NRCS staff in Washington, also has the authority to designate conservation priority areas within the state. These areas will receive 65 percent of the funds allocated to the state, with the remaining 35 percent allocated to other areas on a case-by-case basis. Designated EQIP Conservation Priority Areas for North Carolina this year are shown in Figure 1.

The Conservation Reserve Program

The Conservation Reserve Program (CRP) was first approved in the 1985 Farm Bill. Essentially a farmer can bid qualified land into the program and, if accepted, receive rental payments for removing the land from agricultural production and putting it to a conservation use. The contract is for ten years. The CRP program has been quite successful but also quite expensive. The 1996 Farm Bill placed additional restrictions on qualifying land and the total acreage that could be accepted into the program.

Generally, to be eligible for the CRP, land must be designated as "highly erodable." This designation is based on a formula used by the Natural Resources Conservation Service (NRCS) that takes landscape and soil characteristics into consideration. However, if a parcel of land is located in a priority area, it does not have to meet the erodability standard to be eligible for the CRP. There are national priority areas which include lands in the upper Midwest prairie pothole region as well as land surrounding the Chesapeake Bay. In North Carolina the Cape Fear Basin which covers parts of Bladen, Cumberland, Duplin, Harnett, Pender, and Sampson counties is the only approved priority area for this program. If land in this area will be used for wildlife enhancement, then it does not have to meet the "highly erodable" criteria to be eligible for the CRP.

The new Farm Bill provisions also place an upper limit on acceptable bids at the average land rental rate for each soil type in the county where the proposed CRP land is located. There are announced sign-up periods when farmers can offer bids into the program. The next one will be held this fall. Land is accepted into the program based on its Environmental Benefits Index (EBI). The EBI is based on the following factors: 1) wildlife habitat benefits which encourage covers on contract acreage that will be most beneficial to wildlife, 2) water quality benefits from reduced erosion, runoff,

The Conservation Reserve Program

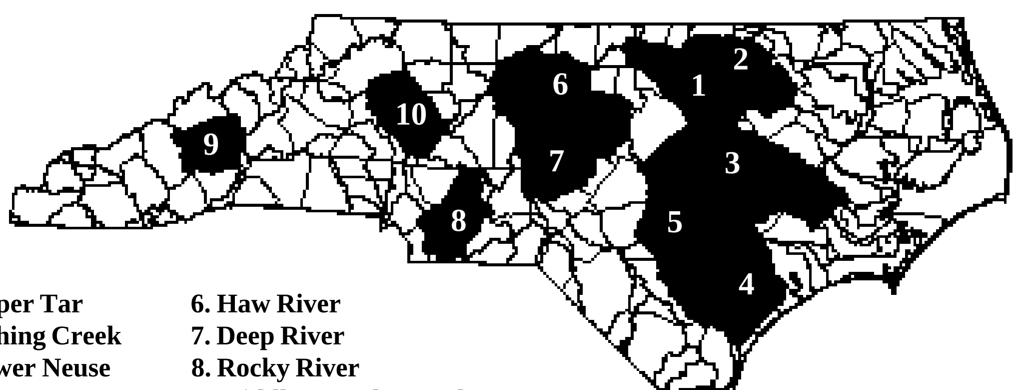
and leaching, 3) on-farm benefits of reduced erosion, 4) likely long-term benefits beyond the contract period which recognizes that certain practices such as trees will provide environmental benefits beyond the contract period, 5) air quality benefits from reduced wind erosion, 6) benefits of enrollment in conservation priority areas where enrollment would contribute to the improvement of water quality, wildlife habitat, or air quality, and 7) cost. The EBI is calculated for each parcel for which a bid has been made, and then all the bids from each state are sent to NRCS headquarters in Washington DC to be evaluated along with other states' bids. Acceptable bids are decided at the national level.

An additional, continuous sign-up period was introduced in the 1996 Farm Bill for land that will be put to several, high priority conservation uses. The continuous sign-up provides for contracts for as long as 15 years and additional incentive payments for as much as 20 percent if a farmer agrees to construct windbreaks, grass waterways, filter strips or riparian buffers. The continuous sign-up bids are not subject to the EBI rating system. An important use for this part of the program in North Carolina may be to help defray the costs to farmers if the proposed riparian buffer strips along all perennial streams are required as part of the new nutrient sensitive water strategy currently in development (initially developed for the Neuse basin).

In late April, 1997, a new program was announced to enhance the CRP. This program is a new public-private partnership called the National Conservation Buffer Initiative. Six national agricultural corporations pledged nearly $1 million available over the next three years to complement USDA's efforts to promote conservation buffers.

Figure 1. North Carolina Conservation Priority Areas - 1997

Environmental Quality Incentives Program (EQIP)



1. Upper Tar
2. Fishing Creek
3. Lower Neuse
4. NE Cape Fear
5. Black River
6. Haw River
7. Deep River
8. Rocky River
9. Middle French Broad
10. South Yadkin

Agricultural Wetland Policy

The Wetlands Reserve Program

The Wetlands Reserve Program (WRP) provides funds for purchasing temporary (30 year) or permanent easements from farmers to protect wetland "functions and values." These functions and values include wildlife habitat and migratory bird habitat preservation, water quality improvement, flood water retention, and groundwater recharge capabilities, protection and enhancement of open space, and contribution to educational and scientific scholarship.

There is more flexibility in this version of the WRP. An applicant can offer the land for a permanent easement or nonpermanent, 30-year easement. The WRP also provides cost share funds for wetlands restoration. Land is accepted into the WRP with priority placed on land that will maximize wildlife values; have the least likelihood of reconversion and loss of those values at the end of the WRP enrollment period; and that involve state, local, or other partnership matching funds and participation.

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Swampbuster Provisions

The other provisions of the Farm Bill dealing with wetlands are called the Swampbuster provisions because they are concerned with the conversion of existing wetlands for agricultural production purposes. Prior farm bills disallowed farmers who converted wetlands from participating in any USDA programs. The Clean Water Act also restricts the use or degradation of the functions of wetlands. The new farm law expands the areas where mitigation (creating or restoring another wetland to take the place of the one converted) can be used. It also establishes a pilot program to see if wetland mitigation banking could work for agriculture. Wetland mitigation banking allows public or private entities to create and, in some cases restore, a wetland to be used as a bank. Credits from this bank can be purchased and used for mitigation purposes. Some state departments of transportation (including North Carolina's) have used wetland mitigation banking arrangements successfully for some time.

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