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Before the U.S. House of Representatives Committee on Agriculture

A 2022 Review of the Farm Bill:
The Role of USDA Programs in Addressing Climate Change

March 16, 2022

Chairman Scott, Ranking Member Thompson and Members of the Committee, thank you for the opportunity to testify on behalf of the Agricultural and Food Policy Center at Texas A&M University as you focus on the opportunities that producers have to positively impact climate change. As many of you know, the primary focus of AFPC has been to analyze the likely consequences of policy changes at the farm level with our one-of-a-kind dataset of information that we collect from commercial farmers and ranchers located across the United States.

Our Center was formed at Texas A&M University more than 30 years ago at the request of Congressman Charlie Stenholm to provide Congress with objective research regarding the financial health of agricultural operations across the United States. Since that time, we have worked with the Agricultural Committees in both the U.S. Senate and House of Representatives, providing Members and committee staff objective research regarding the potential farm-level effects of agricultural policy changes.

Working closely with commercial producers has provided our group with a unique perspective on agricultural policy. While we normally provide the results of policy analyses to you or your staff without recommendation, today I am carrying the message from the nearly 675 producers we work with across the United States.

In 1983, we began collecting information from panels of 4 to 6 farmers or ranchers that make up what we call representative farms, located in the primary production regions of the United States for most of the major agricultural commodities (feedgrain, oilseed, wheat, cotton, rice, cow-calf and dairy). Often, two farms are developed in each region using separate panels of producers: one is representative of moderate-size, full-time farm operations, and the second panel usually represents farms two to three times larger.

Currently we maintain the information to describe and simulate 94 representative crop and livestock operations in 29 states. We have several panels that continue to have the original farmer members we started with back in 1983. We update the data to describe each representative farm relying on a face-to-face meeting with the panels every two years. We partner with the Food & Agricultural Policy Research Institute (FAPRI) at the University of Missouri who provides projected prices, policy variables, and input inflation rates. The producer panels are provided pro-forma financial statements for their representative farm and are asked to verify the accuracy of our simulated results for the past year and the reasonableness of a six-year projection. Each panel must approve the model's ability to reasonably reflect the economic activity on their representative farm prior to using the farm for policy analysis.

The set of conservation programs in Title II have a strong track record of incentivizing producers to retire some of this country's most fragile lands through the conservation reserve program (CRP) and the agricultural conservation easement program (ACEP) or implement environmentally beneficial projects or practices on working lands through the conservation stewardship program (CSP), the environmental quality incentives program (EQIP) and the regional conservation partnership program (RCPP). The producers we work with have very strong, positive views about these programs with the only drawbacks being they have more projects they are willing do to than there is money to do them, and they question how priority areas are determined regionally. For example, in FY2019, 41,471 EQIP applications were funded of the 149,574 received or only 27.7%. Of the roughly 108,000 remaining applications, 46% were determined valid, but unfunded.

USDA is already using existing programs to incentivize climate-smart practices through, for example:

- Targeted "Climate-Smart Agriculture and Forestry EQIP" in select sates.

- Providing $300 million in RCPP funding for 85 projects focused on climate-smart agriculture.

- Expanding CRP enrollment by 4 million acres by raising rental rates and expanding the number of voluntary incentivized environmental practices allowed. NRCS is also establishing a "climate-smart practice incentive" and pays for the establishment of trees and permanent grasses, developing wildlife habitat, and wetland restoration.

In addition, the 2018 Farm Bill established EQIP Incentive Contracts which blend EQIP and CSP to provide financial assistance to producers for adopting conservation activities. It was first available in FY2021 in four pilot states and is now available nationwide. Contracts are for 5 to 10 years in length with a $200,000 payment limit over the life of the 2018 Farm Bill (expires 2023).

In preparation for the testimony today, we emailed our representative farm members the following points that I planned on making and asked them to let us know if they agreed or disagreed with each of the 5 points. They were also asked if there was anything that they thought I was missing; I will point out the areas that were suggested below. The panel members were emailed Saturday afternoon with the request to reply by midday Monday. At the time of submitting this written statement, we had received 105 responses.

1. Having a strong safety net from Title I programs (ARC/PLC and the marketing loan) and Title XI (crop insurance) remains critical even with new carbon market opportunities. They unanimously agreed with this statement in spite of the fact they expect very little benefit from Title I programs this year. In the words of a wheat farm panel member from Washington State… "it's the peace of mind we get from knowing the bottom can't completely fall out from under us that keeps us going." Most felt that crop insurance was going to be the key safety net program this year with high prices and several reiterated "do no harm." This leads me to the point that might not be shared by others on this panel: in my opinion, tying climate-smart practices to the crop insurance program should not be done – not to premiums, not to participation, nor to indemnities. The farmers we work with are worried about 1) the long-run implications for crop insurance of tying climate-smart provisions to the policy and/or 2) that it will lead to regional winners and losers, depending upon practices that are available.

2. USDA conservation programs (CRP, CSP and EQIP) that have incentivized a broad array of conservation practices have worked well in the past. They have just been under funded. These programs have a strong history of helping producers undertake practices that scientific studies have found provide proven environmental benefits. Producers much prefer this type of approach to the current carbon program situation where the significant record keeping requirements, additionality requirements, uncertain soil tests, and very low financial benefits have the majority of our representative farm panel members not interested in participating.

3. Congress should strongly consider providing financial incentives to early adopters who are not eligible to participate in current carbon programs due to the additionality requirement. If it is good to sequester carbon it should also be good to keep carbon sequestered. Many of the producers who responded to my request indicated that they are disgusted with a system that only rewards late adopters. In their words "they chose to no-till or implement cover crops for economic and environmental reasons many years ago, but a carbon market should reflect the value of both stored and in the process of being stored carbon." I can understand in the current carbon market that companies are wanting to make a difference by paying to remove carbon from the atmosphere. That is why I believe that the government and this committee has a role in ensuring producers with carbon already stored are incentivized to keep the carbon sequestered. Potential programs should avoid the incentive to reverse production systems so that carbon already stored is released in order to capture program payments. Further, what happens when producers who have adopted no-till practices can't get herbicides (which replace cultivating) to control weeds?

4. All producers regardless of size, region, or crops planted should have opportunities in any new USDA climate programs. This statement appears fairly benign, but let me assure you it is not. If all producers in the U.S. do not have some USDA NRCS identified practice they can undertake in the name of sequestering carbon, then there will regional winners and losers – including by both crop and by size – as carbon programs are created. In addition, several of the producers responded that carbon payments should not be payment limited as doing so would likely reduce the effectiveness of the program.

5. Congress should consider providing USDA the authority to safeguard producers from being taken advantage of in current carbon markets dealing with private entities. For example, signing a carbon contract with at least one current company would require a producer to forgo commodity and conservation program benefits on that

land. The agricultural industry is in need of guidelines that take the mystery out of the current carbon market opportunities. For example, many of the different companies utilize their own proprietary test for soil carbon. Why? Also, why would a company require the field under contract with them to be ineligible for other nonrelated USDA benefits? If private carbon markets are ever going to matter, there has to be more transparency than there is currently. The current benefits are way too low to lock into a multi-year agreement with the lack of structure and transparency in the market. Having said this, several producers we work with have said they would rather not have the government get involved in the carbon market at all and asked me to point out that while they see a problem – it could be made worse.

Mr. Chairman, that completes my statement.

Figure 1. Representative Farm and Ranch States With Those Responding to Questions (in Blue)