

DEPARTMENT OF AGRICULTURE**Natural Resources Conservation Service****7 CFR Part 1469****RIN 0578-AA36****Conservation Security Program**

AGENCY: Natural Resources Conservation Service and Commodity Credit Corporation, USDA.

ACTION: Proposed rule with request for comments.

SUMMARY: The Natural Resources Conservation Service (NRCS) is issuing a proposed rule with a request for comments. This proposed rule implements the Conservation Security Program (CSP) set out in the Food Security Act of 1985, as amended by the Farm Security and Rural Investment Act of 2002, enacted on May 13, 2002. This proposed rule describes how NRCS will implement the CSP to provide financial and technical assistance to agricultural producers who conserve and improve the quality of soil, water, air, energy, plant and animal life, and support other conservation activities. This proposed rule also addresses public comments that NRCS solicited in an advanced notice of proposed rulemaking (ANPR) published February 18, 2003, in the **Federal Register** and other comments NRCS received in public workshops and focus groups. In addition, Congress is currently considering legislation that amends the CSP statute. Pending the enactment of the legislation, NRCS intends to publish a supplement to this proposed rule. The supplement will amend the proposed rule to provide further guidance as to how the agency will implement CSP and to address potential changes in law.

DATES: Comments must be received by March 2, 2004.

ADDRESSES: Send comments by mail to Conservation Operations Division, Natural Resources Conservation Service, P.O. Box 2890, or by e-mail to david.mckay@usda.gov; Attn: Conservation Security Program. You may access this proposed rule via the Internet through the NRCS homepage at <http://www.nrcs.usda.gov>. Select "Farm Bill."

FOR FURTHER INFORMATION CONTACT:

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SUPPLEMENTARY INFORMATION:**Executive Order 12866**

The program was authorized with an unspecified annual funding level from FY2003 through FY2007, with an overall spending cap of \$3.77 billion as of the date of this publication.

Pursuant to Executive Order 12866 (58 FR 51735, October 4, 1993), Regulatory Planning and Review, the Natural Resources Conservation Service (NRCS) conducted a benefit cost analysis of this program, which is included in the Regulatory Impact Analysis of this rule. A summary of the analysis follows.

NRCS developed a simulation model to analyze CSP benefits and costs. The model assesses producer participation and the overall benefits and costs to society associated with that participation. The model is based on a series of composite farms, replicating the process of calculating the CSP participation decision. Given farm-level estimates of participation, enrolled acreage, payments, and costs, the model estimates on-site and environmental (off-site) benefits, net economic costs, government costs, government-to-producer transfer payments, net benefit to society, and the benefit-cost ratio.

The model calculates the overall CSP payment by calculating several payment components individually, and then by summing the results of: the base payment, cost-sharing for installation of new structural practices and adoption of new land management practices, cost-sharing for maintenance of existing structural and land management practices, and enhancement payments. The Net Present Value (NPV) of each payment is determined by a payment rate per acre, the number acres to which the payment applies, contract years in which the payment is made (*i.e.*, whether the payment is made on a one-time or annual basis), discounted to the present using a 7% annual discount rate. Payments for structural and land management practices were calculated using a methodology similar to that used for the Environmental Quality Incentives Program (EQIP) Benefit/Cost Analysis, Final Report, May 29, 2003.

In the absence of the CSP program, adoption of conservation practices would reflect existing incentives such as those provided by other USDA programs. For purposes of this analysis the baseline is assumed to be zero, or no additional adoption of conservation practices without the program.

The benefit analysis is limited to certain resource concerns for which we have reliable estimates of the benefits that accrue with the application of

conservation practices. For purposes of the CSP benefit cost analysis, benefits arise from the installation and adoption of practices required as a condition for enrollment in the program, or from the maintenance of practices beyond what would typically occur without maintenance payments. The difference between what would be the presumed practice effectiveness without maintenance payments and the enhanced effectiveness that would be expected with CSP maintenance payments represents the benefit of the program. This analysis does not include benefits that will accrue after the CSP contract ends. Although benefits may continue to be generated if the conservation practices remain in place after the end of the contract, the program could not claim those benefits because the participant is under no obligation to maintain the practices beyond the duration of the contract. Benefits as the result of CSP participation are expressed as either on-site (those that accrue to the participant) or environmental (those that accrue to society).

Two cost figures are germane. First, government expenditure includes all government expenditures relating directly to a specific CSP contract. These include financial assistance to the participant including base payments, existing and new practice payments, and enhancement payments; and technical assistance costs.

The second cost item of interest is the total economic cost to the economy. Total economic cost include total practice implementation costs (cost-share and participant cost), total practice maintenance costs, and technical assistance costs.

Program net benefits are the sum of all CSP-related benefits received by society less all CSP-related costs incurred by society. CSP-related benefits include on-site and environmental benefits that accrue from practice installation, adoption, and maintenance.

The net benefit of the CSP to society is CSP-related benefits less CSP-related costs. Note that payments to participants cancel, as they are a benefit to participants but a cost to society. Thus, transfer payments received by participants, payment above CSP-related conservation costs, also cancel out of the net benefit calculation. However, these transfer payments can produce unintended and potentially adverse consequences.

When payments closely approximate the costs of program participation, transfer payments are minimized. The use of regional, rather than national average rental rates to calculate the base